INNOVATING FOR THE FUTURE

2019 ANNUAL REPORT

FARM CREDIT
OF CENTRAL FLORIDA

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REGGIE HOLT
Chief Executive Officer

FROM THE PRESIDENT'S DESK

As we embark on a new decade, it's normal to think about what the future will hold. Being in agriculture, we wonder, what will farming look like in the future? Farmers and Ranchers must remain forward thinkers. Innovation and technological changes are advancing our industry to help productivity and profitability. In the midst of these changes, one thing remains constant for our members, which is, our commitment to serve the Central Florida farming and rural communities by providing reliable consistent credit and financial services.

The commitment to serve the Central Florida market was rewarded, as your Association was able to achieve solid asset growth, maintain excellent credit quality and generate solid earnings during 2019. As a result of the favorable operating performance, our cooperative model was able to function as designed with $6.5 million in patronage refunds to you, our borrower-owners.

The results achieved are a testament to the hard work, innovation and success of our farmers, ranchers, growers and the rural communities we serve, as well as to the staff of your Association that works tirelessly to support our borrower-owners.

As noted in our 2018 Annual Report, one of the primary areas of focus for us in 2019 was to improve your customer experience. Our plans to deliver on this objective included the following:

- Complete implementation of new loan platform.
- Reduce the number of days from loan application to decision.
- Improve communication with members through the use of surveys to track results.
- Utilize Member Advisory Committee to identify, understand and provide input on current and future customer needs.

By implementing the above objectives, we have seen an improvement in our customer satisfaction ratings. However, we believe that there remains additional room for improvement. During 2020, we will continue our focus on improving your customer experience by further capitalizing on the efficiencies gained from the new loan platform. As a result of this new system, we are able to more quickly identify existing or potential bottlenecks in our process and take quick action to resolve. Further, because of the ability to more effectively track our processes, 2020 will see a further emphasis on improving our communications with applicants on the status of their loan requests

With the rapid changes coming from the technology sector, we will continue to evaluate opportunities to meet

OUR MISSION: *TO BE THE PREMIER PARTNER WITH FARMERS AND RURAL COMMUNITIES THROUGHOUT ALL OF CENTRAL FLORIDA BY PROVIDING RELIABLE, CONSISTENT CREDIT AND FINANCIAL SERVICES.*

customers needs as efficiently as possible, whether that is through the use of an online lending application, social media posts or through the use of more relevant and value added content, we want to meet the needs of our customers where and when they have a need.

2019 marked my 12th year leading the Farm Credit of Central Florida team, and I couldn't be more proud of their accomplishments. I am always amazed at the innovative ways in which they strive to meet the needs of our members.

In this Annual Report, you will find three stories that discuss the innovative approaches our members employ in their business to help ensure continued success. I hope you enjoy reading their passion-filled stories as much as I do.

Farm Credit of Central Florida remains committed to serving our market and will continue to seek innovative products and services that will enhance relationships and bring value to our members.

Thank you for allowing us to serve you in 2019 and beyond!

Reggie Holt

	2015	2016	2017	2018	**2019**
SERVICING LOAN VOLUME	$907	$942	$902	$919	**$960**
TOTAL ASSETS	$483	$544	$562	$563	**$590**
MEMBER EQUITY	$92	$96	$103	$109	**$113**
CREDIT QUALITY	93.4%	95.0%	97.8%	97.7%	**98.6%**

	2015	2016	2017	2018	**2019**
NET INCOME	$10.3	$10.8	$12.3	$14.2	**$12.3**
CORE INCOME FROM OPERATIONS	$6.6	$6.5	$7.8	$8.5	**$9.7**
ROA	2.4%	2.2%	2.4%	2.6%	**2.2%**
CASH PATRONAGE REFUNDS	$4.0	$4.3	$4.6	$6.2	**$6.5**

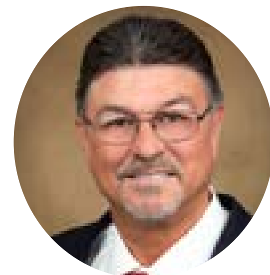
*Dollar amounts in millions

OUR BOARD OF DIRECTORS ARE DEDICATED TO ENSURING YOUR PROSPERITY BY ALWAYS KEEPING YOUR INTERESTS IN MIND.

BOARD OF DIRECTORS

W. REX CLONTS, JR.
Chair

KEITH D. MIXON
Vice Chair



DANIEL T. APRILE

ROBERT M. BEHR

JENNY R. BLACK

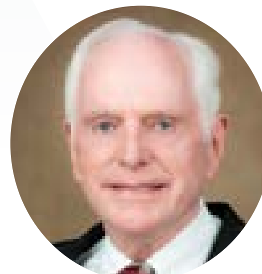
C. DENNIS CARLTON, SR.

WILLIAM L. KLINGER

RANDY L. LARSON

DAVID A. MERENESS

RANDALL E. STRODE



RONALD R. WETHERINGTON

OUR STRONG TEAM OF LEADERS MAKE SUPPORTING YOU, THE AGRICULTURE INDUSTRY AND ITS STAKEHOLDERS OUR NUMBER-ONE PRIORITY.

PEOPLE WHO WORK FOR YOU

EXECUTIVE MANAGEMENT

REGGIE HOLT
Chief Executive Officer

SCOTT FONTENOT
Chief Operating Officer

SCARLET DETJEN
Chief Credit Officer

SENIOR LEADERSHIP

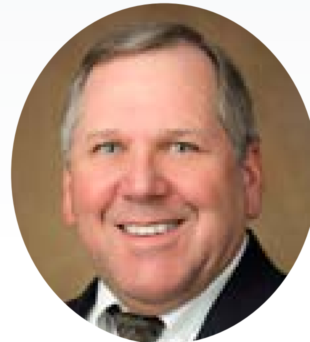
ANNIE SULLIVAN
Chief Financial Officer

JEFF PHILLIPS
Chief Relationship Officer

JOHAN DAM
Chief Digital Strategist & Marketing Officer

DAWN TUTEN
Chief Administrative Officer

MARK MCRAE
Chief Sales Officer



DAVID MCDONALD
Regional Market Manager

From left: Kyle Story (Vice-Chair), Mallory Lykes Dimmitt, Ty Strode, C. Dennis Carlton, Jr, Madison Astin, Tim Schaal, Leigh Ann Wynn (Chair), Matthew Roberts, Hilda Castillo, Maxwell Mercer and Deeley Hunt and Erin Archey (not pictured).

MEMBER ADVISORY COMMITTEE

During 2019, Farm Credit of Central Florida formed a new Member Advisory Committee with the goal of engaging the next generation of leaders in our territory. While serving on the Committee, members are provided educational and leadership opportunities to enhance their existing abilities. These opportunities build them into brand ambassadors for the Association and the Farm Credit System as well as prepare them to be prospective board of director candidates should the opportunity arise.

To ensure that the Committee is comprised of the next generation of leaders as well as a diverse cross section of the territory, the committee consists of 12 members, all of whom are elected by the board from the Association's membership utilizing the following criteria:v

- Four members from each of the Association's shareholder voting Area / Regions, of which two shall be young farmers or ranchers (<40 years old).
- At least five members shall be small or lifestyle farmers.
- Members will be age 50 years or less.
- No more than three members shall be related to or have a financial or business relationship with any member of the Association's board of directors.

The committee is engaged two to three times a year and provides ongoing grassroots feedback to the board and management on specific market needs and recommendations on how to meet these needs, as well as recommendations for improving the customer experience. In 2019, the committee was engaged in the Association's strategic business planning process and was able to provide valuable input in all business areas, especially as it relates to customer expectations and how the Association can work to improve the customer experience.

BY THE NUMBERS

Farm Credit of Central Florida is committed to the future of agriculture by supporting young, beginning and small farmers. YBS includes farmers who are 35 or younger ("young"), have been farming for 10 years or less ("beginning") and whose gross annual farm sales are less than $250,000 ("small"). In 2019, Farm Credit of Central Florida increased their overall lending to YBS Farmers both in terms of number of new loans and total volume. The largest increases were in total loan volumes.

YBS = YOUNG BEGINNING SMALL

YOUNG = 35 OR YOUNGER

BEGINNING = 10 YEARS OR LESS

SMALL = LESS THAN 250K GROSS ANNUAL SALES

2019

INCREASED OVERALL LENDING TO YBS

NEW MEMBERS

YOUNG	47
BEGINNING	102
SMALL	189

TOTAL CURRENT MEMBERS

YOUNG	115
BEGINNING	327
SMALL	657

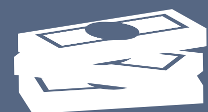
NET VOLUME CLOSED

YOUNG	$5,792,344
BEGINNING	$18,937,083
SMALL	$15,281,407

Farm Credit of Central Florida participated in 25 Young, Small and Beginning farmer programs and activities that assist YBS. We also committed $26,387 toward sponsoring and supporting these programs across our territory.

In June 2019, Farm Credit of Central Florida hosted several workshops at the 91st Florida FFA Convention & Expo focusing on financial concepts. The workshops included "Making money on the Farm: What's your net worth?," "Financial Literacy for a Comprehensive Agriculture Program" and "Building Strong Credit." FFA Advisors and students alike had the opportunity to learn through interactive sessions led by Farm Credit employees.

25 PROGRAMS



$26,387 IN SPONSORSHIP AND SUPPORT

Ed Pines of EIP Citrus (Left), Steven Callaham of Dundee Citrus Growers Association (Center) and Shane Platt (Right)

INNOVATION IS KEY TO FUTURE OF FLORIDA CITRUS

Florida and citrus groves have a long history together, with citrus being commercially farmed in Florida since the mid-1800s. In the mid-2000s Huanglongbing (HLB), or commonly known as citrus greening disease, entered the state, resulting in a significant decline in production and a fight for survival. To combat this decline and ensure a future for fresh Florida citrus, growers are turning to an innovative approach.

In 2014, Dr. Arnold Schumann from the University of Florida began researching Citrus grown Under Protective Screen, CUPS for short.

"CUPS may reduce insecticide use and further improve premium HLB-free fruit marketability by providing consumers with lower pesticide residues than equivalent outdoor fruit and with less impact on the environment," says Dr. Schumann.

After learning of Dr. Schumann's CUPS research, Ed Pines, a Dundee Citrus Growers Association (DCGA) board of director and President of EIP Citrus Management, LLC, brought it to the attention of DCGA in an attempt to commercialize the technology. In 2017, DGCA and EIP Citrus Management broke ground to develop 150 acres of CUPS. Today the project includes 10 individually owned, 11-acre structures

WITH ALL OF THE CHALLENGES FACED BY FLORIDA CITRUS GROWERS IT IS EXCITING TO SEE THE INNOVATIVE APPROACHES GROWERS ARE TAKING TO SECURE A STRONG VIABLE INDUSTRY FOR FUTURE GENERATIONS.

Aerial view of CUPS facility

which are fully managed by DCGA. The inside of a CUPS facility looks like a conventional citrus grove, but from the outside it looks like a series of large greenhouses.

The centrally located design of the CUPS complex allows the owners of the individual structures to take advantage of economies of scale. Specialized equipment including tractors, spraying equipment and high-tech irrigation and fertigation systems are shared throughout the CUPS complex. DCGA takes responsibility for general structure upkeep throughout the entire complex minimizing grower costs and preventing cross contamination.

"Have you been in a citrus grove today?" Steven Callaham, CEO of DCGA, asks visitors before entering the new CUPS facility. Callaham explains, "Quality control is a big concern when it comes to growing CUPS."

DCGA implemented stringent protocols to keep the Asian citrus psyllid known to carry HLB out. Those protocols include ensuring all specialized care-taking equipment stays onsite.

Brian Nisula of PM Citrus, a participant in the CUPS project, says "Seeing the quality of the trees and fruit that CUPS could produce led us to take an in-depth look into the commercial application of the CUPS growing systems." Nisula continues, "Given the challenges of conventional growing methods in the current HLB environment in Florida and the consumer preference for high quality fresh fruit, we decided to deploy the CUPS growing system on our latest grove developments. The controlled environment of the CUPS system makes it an optimal choice for producing high quality citrus in Florida."

Kyle Story of Story Companies adds, "The CUPS investment is another way for my family to diversify within the citrus industry. This gives us the opportunity to grow high quality fresh fruit in the HLB/ citrus greening era."

The initial CUPS project has been completely built out and is now in the growing phase with a first harvest expected in 2020. Given the success of the CUPS complex and the interest in the project from industry participants, DCGA is currently in the process of a second phase of the CUPS project.

With all of the challenges faced by Florida citrus growers, it is exciting to see the innovative approaches growers are taking to secure a strong viable industry for future generations. Farm Credit supports Florida agriculture in many ways through these challenges and looks forward to partnering with growers as they develop new, innovative technologies and practices.

CUPS Facility close-up

John Sizemore of Sizemore Farms (Left) and Sam Astin of Astin Farms (Right)

INNOVATION COMBATS STRUGGLES FACED BY STRAWBERRY INDUSTRY

Innovation creates efficiency and saves resources while improving a process or adopting new processes.

With increased pressures due to higher production costs, lower earnings and competition from Mexico, the Florida strawberry industry has searched for new ways to do business. One of the ways growers John Sizemore of Sizemore Farms and Sam Astin of Astin Farms have adapted is through implementation of innovative technology. Highland Precision Ag has developed technologies such as an online farm management system and advanced weather and soil-monitoring tools to help growers like Sizemore and Astin conquer the industry's issues.

Highland Precision Ag developed Highland Hub, an online farm

NOW, BOTH IN THEIR SECOND FULL SEASON USING HIGHLAND PRECISION AG, SIZEMORE AND ASTIN RELY ON THESE ADVANCED TECHNOLOGIES TO INCREASE THEIR RESPECTIVE EFFICIENCIES.

management system. This technology allows growers to study the past, see the present and plan for the future. It is a combination of food safety programs, digital record keeping, a place to monitor control points, and measure and analyze crop production usage and input costs.

Highlights of Highland Hub include farm details with planting maps, water sources, as well as weather stations and soil probes with advanced systems to track temperature, rainfall, wind speed, humidity, soil moisture and salinity. Food safety manuals, records for fields and/or packinghouses and internal audits are stored virtually on the system available via website or app. CropIQ allows growers to additionally track and measure chemicals and costs associated with the field(s).

Sizemore and Astin rely on Highland Hub to compile all data so it is available in one place. Both growers enjoy biweekly field visits by scouts that include GPS located lab results and details to help support and recommend treatments and suggest picking/pricing times for growers. With the touch of a button, they can see spray records, lab results, internal audits, a food safety manual, information from field scouts, and notifications of deadlines and best practices based on historical data.

"The unique thing about it is all of these services are available somewhere. But with this you can come to one spot and look at everything," Sizemore says of the benefit of the system. "It's basically a one stop shop. If it wasn't in one place, you would have to have an employee that gathered the information and put it in one place so you can use it as a management tool," Sizemore says.

"Before, you couldn't finish looking at all the reports located in different places because you were too busy and had to get back to work," Astin added.

Astin and Sizemore are able to identify diseases and potential problems quickly thanks to scouts, lab work and monitoring systems in place.

"The scouts come out every two weeks and tell us what the status is on disease issues and insects. They take tissue and soil samples that help me dial in my treatments," Astin continues. "You can take a look at the Hub and see what one field may be lacking and one field has too much of, which helps you adjust your rates."

Now, both in their second full season using Highland Precision Ag, Sizemore and Astin rely on these advanced technologies to increase their respective efficiencies "It improves our processes, bottom line and increases efficiency," Sizemore says of the benefits he is seeing in using the technology.

While labor is a hot topic in Florida agriculture, growers can agree that when you have labor, you make the most of the time you have. Having a tool that predicts patterns, reports data at the field level and senses changes or challenges before they are apparent helps Astin and Sizemore make quick decisions and plan around the needs of the field.

"The cost of labor is high, so when you have labor, you have to make the most of the time," Astin said, "Highland Hub allows me to see real time data which helps me plan ahead on how to use the time I have my labor force."

The implementation of Highland Hub tools, combined with the use of GPS monitored tractors that have set boundaries to tell the systems to speed up, slow down, fumigate or pause, helps growers like Sizemore and Astin further push the industry and their operations while securing a safer and more efficient future.

"We just want to grow strawberries," Sizemore says.

Farm Credit proudly supports the strawberry industry and growers like John Sizemore and Sam Astin. The innovative tools and techniques the industry is starting to see will be the future of the industry. We look forward to continuing to collaborate with those in the industry and to support the innovations of tomorrow.

Leon (Left) , Andrea (Center) and Daniel McClellan (Right)

M&B PRODUCTS IS NO STRANGER TO INNOVATION

A successful business understands the value of continuous improvement and innovation. In fact, innovation might just be the most important component to meeting the ever-changing consumer demands. M&B Products and its founder Dale McClellan are no strangers to innovation.

The McClellan's story began in the 1950s, when Dale's grandfather, Earl Lovelace, operated Sunny Brook as a dairy farm and glass bottling plant. After Sunny Brook closed, Dale and Mary McClellan started M&B Products (M&B) in 1987 as a continuation of their family dairy farm and processing plant. This family run business spans over four generations. M&B began originally as a juice company but later diversified by also packaging and selling milk products. Today, the McClellan family has their own proprietary blends of juice drinks, milk, yogurt and water that is sold primarily to institutional users such as schools, state intuitions and nursing homes.

Throughout the years, M&B Products has continually and successfully sought new innovative ways to improve their business and make their delicious beverage products unique. When asked how

"AT M&B PRODUCTS, WE LOOK FOR A SOLUTION, NOT A REASON TO QUIT"

Dale McClellan of M&B Products in processing plant

Andrea and Dale McClellan

M&B is able to consistently generate new ideas and products, Dale McClellan says, "we try a lot of things, and they don't all work." One of the keys to M&B's success is its desire to meet and exceed its customers' needs at every opportunity.

Dale recalled that one of the first innovative things that M&B did as a company was to offer their products in a "mini sip pouch." The introduction of these small plastic pouches came about as a way to improve efficiency for M&B and its customers. By switching to the pouch, M&B and its customers could reduce cooler storage space requirements by 40percent in comparison to milk cartons. Furthermore, it has the added benefit of reducing the company's carbon footprint as there are fewer shipments required and less handling of the product. Finally, the plastic pouches also reduce school waste volume by up to 70 to 80percent, which also saves the schools money as there are fewer pickups required.

The next major breakthrough for M&B was brought about partially by the Lets Move! campaign introduced in 2010 with a focus on encouraging healthier foods in schools, better food labeling and more physical activity for children. The campaigns primary aim is to reduce childhood obesity and encourage a healthy lifestyle in children. The McClellan family believes that milk is a healthy option, but still wanted to see how they could improve their products and be part of the solution. After discussions with several school districts M&B decided to focus their efforts on offering a healthier flavored milk product. Specifically, M&B was looking to produce a flavored milk product that was fat free and lower in sugar. This idea was sparked by Dr. Beverly Girard, the school nutrition director of Sarasota County Schools. In 2011, after multiple attempts, M&B was able to bring to market a flavored milk product that was nutrition packed, fat free, lower sugar and tasty. After perfecting the mix, all schools purchasing milk from M&B were transitioned over to the reduced sugar and fat free flavored milk.

"We want to be part of the solution," said Andrea McClellan, general manager responsible for office functions, contract negotiation and vendor/customer relationships.

In 2016, customer requests for a Florida produced, no preservatives, all-natural yogurt product with a longer shelf life led M&B Products to its next product innovation. While delivering a Florida based yogurt would not have been a big challenge, delivering one that had no preservatives and a longer shelf life was. After several attempts, M&B was able to develop and bring to market a yogurt that satisfied all of the customer requests. Developing any new products can be a frustrating process with many challenges but passion and perseverance has led to M&B's successes. Dale said, "At M&B, we look for a solution, not a reason to quit."

Not one to get complacent, M&B continues to look at innovative ways to move their business forward for future generations. Recently M&B completed building a 24,550-square-foot pallet position freezer that allows their operation to run more efficiently. M&B is also in the process of moving forward with installing an automatic palletization machine that streamlines stacking and productivity.

Additionally, in April 2020, M&B will conduct a test run of a new strawberry-flavored milk product aimed at serving that portion of the market that has a sensitivity to consuming milk. The new product will be both lactose free and produced by cows with only the A2 casein protein, which is easier to digest. "Milk is the most perfect beverage there is," Andrea said. "It should be able to be consumed by anyone."

The McClellan's desire to be part of the solution is evident in all that they do and in the way they seek to meet changing consumer preferences. Andrea McClellan noted, "It takes a team to be successful including the help and support we have received from Farm Credit." "We wouldn't be able to do what we do without the help of Farm Credit."

Farm Credit of Central Florida is proud to support the dairy farmers and companies like M&B Products. We enjoy hearing all the ways dairy farmers are being innovative and ensuring a future for the industry.

FARM CREDIT OF CENTRAL FLORIDA, ACA

2019 ANNUAL REPORT

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Report of Management

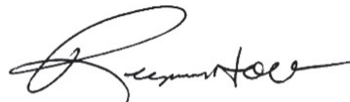
The accompanying Consolidated Financial Statements and related financial information appearing throughout this annual report have been prepared by management of Farm Credit of Central Florida, ACA (Association) in accordance with generally accepted accounting principles appropriate in the circumstances. Amounts which must be based on estimates represent the best estimates and judgments of management. Management is responsible for the integrity, objectivity, consistency, and fair presentation of the consolidated financial statements and financial information contained in this report.

Management maintains and depends upon an internal accounting control system designed to provide reasonable assurance that transactions are properly authorized and recorded, that the financial records are reliable as the basis for the preparation of all financial statements, and that the assets of the Association are safeguarded. The design and implementation of all systems of internal control are based on judgments required to evaluate the costs of controls in relation to the expected benefits and to determine the appropriate balance between these costs and benefits. The Association maintains an internal audit program to monitor compliance with the systems of internal accounting control. Audits of the accounting records, accounting systems and internal controls are performed and internal audit reports, including appropriate recommendations for improvement, are submitted to the Board of Directors.

The Consolidated Financial Statements have been audited by Independent Auditors, whose report appears elsewhere in this annual report. The Association is also subject to examination by the Farm Credit Administration.

The Consolidated Financial Statements, in the opinion of management, fairly present the financial condition of the Association. The undersigned certify that we have reviewed the 2019 Annual Report of Farm Credit of Central Florida, ACA, that the report has been prepared under the oversight of the audit committee of the Board of Directors and in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate, and complete to the best of our knowledge and belief.

David A. Mereness
Chairman of the Audit Committee



Reginald T. Holt
Chief Executive Officer

Anne M. Sullivan
Chief Financial Officer

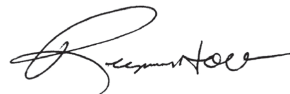
March 12, 2020

Report on Internal Control Over Financial Reporting

The Association's principal executives and principal financial officers, or persons performing similar functions, are responsible for establishing and maintaining adequate internal control over financial reporting for the Association's Consolidated Financial Statements. For purposes of this report, "internal control over financial reporting" is defined as a process designed by, or under the supervision of the Association's principal executives and principal financial officers, or persons performing similar functions, and effected by its Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting information and the preparation of the Consolidated Financial Statements for external purposes in accordance with accounting principles generally accepted in the United States of America and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Association, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial information in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Association, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Association's assets that could have a material effect on its Consolidated Financial Statements.

The Association's management has completed an assessment of the effectiveness of internal control over financial reporting as of December 31, 2019. In making the assessment, management used the framework in *Internal Control — Integrated Framework (2013)*, promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based on the assessment performed, the Association's management concluded that as of December 31, 2019, the internal control over financial reporting was effective based upon the COSO criteria. Additionally, based on this assessment, the Association determined that there were no material weaknesses in the internal control over financial reporting as of December 31, 2019.



Reginald T. Holt
Chief Executive Officer

Anne M. Sullivan
Chief Financial Officer

March 12, 2020

Consolidated Five - Year Summary of Selected Financial Data

(dollars in thousands)	December 31, 2019	2018	2017	2016	2015
Balance Sheet Data					
Cash	**$ 14**	$ 189	$ 53	$ 1,087	$ 320
Investments in debt securities	**5,262**	7,913	13,029	19,008	24,612
Loans	**568,435**	538,999	533,519	508,773	445,550
Allowance for loan losses	**(3,113)**	(3,270)	(4,185)	(4,766)	(6,803)
Net loans	**565,322**	535,729	529,334	504,007	438,747
Equity investments in other Farm Credit institutions	**6,677**	6,568	6,318	6,481	6,598
Other property owned	**—**	—	—	216	16
Other assets	**13,149**	12,949	13,080	13,875	13,640
Total assets	**$ 590,424**	$ 563,348	$ 561,814	$ 544,674	$ 483,933
Notes payable to AgFirst Farm Credit Bank*	**$ 463,711**	$ 442,646	$ 443,696	$ 435,590	$ 379,668
Accrued interest payable and other liabilities with maturities of less than one year	**13,266**	11,602	15,379	12,287	11,717
Total liabilities	**476,977**	454,248	459,075	447,877	391,385
Capital stock and participation certificates	**942**	882	900	861	858
Retained earnings					
Allocated	**21,637**	22,907	24,588	26,269	28,505
Unallocated	**91,532**	85,772	77,821	70,166	63,673
Accumulated other comprehensive income (loss)	**(664)**	(461)	(570)	(499)	(488)
Total members' equity	**113,447**	109,100	102,739	96,797	92,548
Total liabilities and members' equity	**$ 590,424**	$ 563,348	$ 561,814	$ 544,674	$ 483,933
Statement of Income Data					
Net interest income	**$ 14,737**	$ 13,983	$ 12,259	$ 11,129	$ 10,954
Provision for (reversal of allowance for) loan losses	**(424)**	(1,775)	(678)	(2,340)	(1,983)
Noninterest income (expense), net	**(2,878)**	(1,607)	(682)	(2,676)	(2,633)
Net income	**$ 12,283**	$ 14,151	$ 12,255	$ 10,793	$ 10,304
Key Financial Ratios					
Rate of return on average:					
Total assets	**2.23%**	2.62%	2.39%	2.22%	2.36%
Total members' equity	**10.78%**	13.19%	12.24%	11.23%	11.27%
Net interest income as a percentage of average earning assets	**2.74%**	2.63%	2.44%	2.34%	2.54%
Net (chargeoffs) recoveries to average loans	**0.050%**	0.165%	0.020%	0.067%	(0.112)%
Total members' equity to total assets	**19.21%**	19.37%	18.29%	17.77%	19.12%
Debt to members' equity (:1)	**4.20**	4.16	4.47	4.63	4.23
Allowance for loan losses to loans	**0.55%**	0.61%	0.78%	0.94%	1.53%
Permanent capital ratio	**20.13%**	20.03%	18.75%	18.95%	20.42%
Total surplus ratio	**	**	**	18.77%	20.21%
Core surplus ratio	**	**	**	17.53%	18.86%
Common equity tier 1 capital ratio	**20.04%**	19.91%	18.58%	**	**
Tier 1 capital ratio	**20.04%**	19.91%	18.58%	**	**
Total regulatory capital ratio	**20.48%**	20.54%	19.50%	**	**
Tier 1 leverage ratio	**19.49%**	19.00%	17.80%	**	**
Unallocated retained earnings (URE) and URE equivalents leverage ratio	**16.48%**	15.61%	14.02%	**	**
Net Income Distribution					
Estimated patronage refunds:					
Cash	**$ 6,500**	$ 6,200	$ 4,600	$ 4,300	$ 4,000

** General financing agreement is renewable on a one-year cycle. The next renewal date is December 31, 2020.*
*** Not applicable due to changes in regulatory capital requirements effective January 1, 2017.*

Management's Discussion & Analysis of Financial Condition & Results of Operations

(dollars in thousands, except as noted)

GENERAL OVERVIEW

The following commentary summarizes the financial condition and results of operations of Farm Credit of Central Florida, ACA, (Association) for the year ended December 31, 2019 with comparisons to the years ended December 31, 2018 and December 31, 2017. This information should be read in conjunction with the Consolidated Financial Statements, Notes to the Consolidated Financial Statements and other sections in this Annual Report. The accompanying consolidated financial statements were prepared under the oversight of the Audit Committee of the Board of Directors. For a list of the Audit Committee members, refer to the "Report of the Audit Committee" reflected in this Annual Report. Information in any part of this Annual Report may be incorporated by reference in answer or partial answer to any other item of the Annual Report.

The Association is an institution of the Farm Credit System (System), which was created by Congress in 1916 and has served agricultural producers for over 100 years. The System's mission is to maintain and improve the income and well-being of American farmers, ranchers, and producers or harvesters of aquatic products and farm-related businesses. The System is the largest agricultural lending organization in the United States. The System is regulated by the Farm Credit Administration, (FCA), which is an independent safety and soundness regulator.

The Association is a cooperative, which is owned by the members (also referred to throughout this Annual Report as stockholders or shareholders) served. The territory of the Association extends across a diverse agricultural region of central Florida. Refer to Note 1, *Organization and Operations*, of the Notes to the Consolidated Financial Statements for counties in the Association's territory. The Association provides credit to farmers, ranchers, rural residents, and agribusinesses. Our success begins with our extensive agricultural experience and knowledge of the market.

The Association obtains funding from AgFirst Farm Credit Bank (AgFirst or Bank). The Association is materially affected and shareholder investment in the Association could be affected by the financial condition and results of operations of the Bank. Copies of the Bank's Annual and Quarterly Reports are on the AgFirst website, ***www.agfirst.com,*** or may be obtained at no charge by calling 1-800-845-1745, extension 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, Post Office Box 1499, Columbia, SC 29202.

Copies of the Association's Annual and Quarterly reports are also available upon request free of charge on the Association's website, ***www.FarmCreditCFL.com***, or by calling 1-800-533-2773, or writing Anne M. Sullivan, Chief Financial Officer, Farm Credit of Central Florida, ACA, Post Office Box 8009, Lakeland, FL 33802-8009. The Association prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report, which is available on the website, within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Association.

FORWARD LOOKING INFORMATION

This annual information statement contains forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Words such as "anticipates," "believes," "could," "estimates," "may," "should," "will", or other variations of these terms are intended to identify the forward-looking statements. These statements are based on assumptions and analyses made in light of experience and other historical trends, current conditions, and expected future developments. However, actual results and developments may differ materially from our expectations and predictions due to a number of risks and uncertainties, many of which are beyond our control. These risks and uncertainties include, but are not limited to:

- political, legal, regulatory and economic conditions and developments in the United States and abroad;
- economic fluctuations in the agricultural, rural utility, international, and farm-related business sectors;
- weather-related, disease, and other adverse climatic or biological conditions that periodically occur that impact agricultural productivity and income;
- changes in United States government support of the agricultural industry and the Farm Credit System, as a government-sponsored enterprise, as well as investor and rating-agency reactions to events involving other government-sponsored enterprises and other financial institutions; and
- actions taken by the Federal Reserve System in implementing monetary policy.

AGRICULTURAL OUTLOOK

Production agriculture is a cyclical business that is heavily influenced by commodity prices, weather, tax and trade policies, interest rates and various other factors that affect supply and demand. The following United States Department of Agriculture (USDA) analysis provides a general understanding of the U.S. agricultural economic outlook. However, this outlook does not take into account all aspects of the Association's business. References to USDA information in this section refer to the U.S. agricultural market data and are not limited to information/data for the Association.

Agricultural production is a major use of land in the United States and the value of farm real estate accounted for 83 percent of the total value of the U.S. farm sector assets for 2019 according to the USDA in its February 5, 2020 forecast. Because real estate is such a significant component of the balance sheet of U.S. farms, the value of the farm real estate is a critical measure of the farm sector's financial performance. Changes in farmland values also affect the financial well-being of agricultural producers because farm real estate serves as the principal source of collateral for farm loans.

USDA's most recent forecast anticipates that farm sector equity, the difference between farm sector assets and debt, is predicted to rise 1.9 percent in 2019. Farm real estate value is expected to increase 1.8 percent and non-real estate farm assets are expected to increase 3.4 percent, while farm sector debt is forecast to increase 3.4 percent in 2019. Farm real estate debt as a share of total debt has been rising since 2014 and is expected to account for 61.7 percent of total farm debt in 2019.

The USDA is forecasting farm sector solvency ratios to increase slightly in 2019 to 15.5 percent for the debt-to-equity ratio and 13.5 percent for the debt-to-asset ratio, which represent the second highest levels since 2009, but well below the peak of 28.5 percent and 22.2 percent in 1985. Working capital (which is defined as cash and cash convertible assets minus liabilities due to creditors within 12 months) is forecast to decline 12.7 percent in 2019 to $61 billion from $70 billion in 2018. Farm sector working capital has steadily declined since peaking at $165 billion in 2012.

The USDA's most recent forecast estimates net farm income (income after expenses from production in the current year; a broader measure of profits) for 2019 at $93.6 billion, a $9.8 billion increase from 2018, $6.8 billion above the 10-year average and 24.3 percent below its peak of $123.7 billion in 2013. However, in terms of inflation adjusted dollars, 2019 net farm income is $2.7 billion below the 10 year average. The forecasted increase in net farm income for 2019, compared with 2018 is primarily due to increases in direct government payments of $10.0 billion to $23.7 billion, primarily driven by higher payments from the Market Facilitation Program (MFP). The MFP was first implemented in 2018 and continued in 2019 to assist farmers impacted by trade disruptions.

The USDA's outlook projects net farm income for 2020 to increase to $96.7 billion, a $3.1 billion or 3.3 percent increase from 2019. The forecasted increase in net farm income for 2020 is primarily due to expected increases in cash receipts for animals and products of $8.2 billion and crop receipts of $1.9 billion, partially offset by an $8.7 billion decrease in direct government payments due to an expected decline in payments from the MFP. The increase in animal and products receipts reflects growth in hogs, milk, cattle and poultry/eggs receipts, while the crop receipts are driven by fruit/nuts and corn. Soybeans receipts are anticipated to decrease as lower quantities outweigh an increase in price.

Expected agricultural commodity prices can influence production decisions of farmers and ranchers on planted/harvested acreage of crops or inventory of livestock and thus, affect the supply of agricultural commodities. Greater area of planted/ harvested acreage and increased crop yields for some crops in recent years have contributed to increased supply, which exceeded demand. Also impacting yields are the growing conditions that are sensitive to weather conditions. Although not generally affected by weather, livestock and dairy prices are linked to crop prices as feed is a significant input cost to these producers.

Global economic conditions also influence demand for food and agricultural products, which affects U.S. agricultural trade. Therefore, U.S. exports and imports shift to reflect changes in trade policies, world population and economic growth. Also impacting U.S. agricultural trade is global supplies and prices, changes in the value of the U.S. dollar and the government support for agriculture.

Severe wet weather during 2019 adversely affected growing conditions in some production areas. In addition, farmers in certain locations were also impacted by inclement weather during the fall harvest. The impact of the weather related conditions on production agriculture was partially offset by crop insurance proceeds. In addition to weather related challenges, reduced exports resulting from the trade tensions with China added to the already challenging agricultural economy. During 2018 and 2019, the MFP provided a material boost in farm sector income and in early 2020, the United States and China agreed to a "phase one" trade deal, which includes a significant commitment from China to buy agricultural products, among other items. However, the recent spread of the coronavirus (COVID-19) has created uncertainty about China's economic outlook and its ability to fulfill phase one commitments. Furthermore, African swine fever, which has been negatively impacting Asian hog production, may produce increased U.S. exports of pork and other protein products but could also negatively affect U.S. soybean exports.

The following table sets forth the commodity prices per bushel for certain crops, by hundredweight for hogs, milk, and beef cattle, and by pound for broilers and turkeys from December 31, 2016 to December 31, 2019:

Commodity	12/31/19	12/31/18	12/31/17	12/31/16
Hogs	$47.30	$43.40	$48.60	$43.10
Milk	$20.70	$16.60	$17.20	$18.90
Broilers	$0.45	$0.51	$0.50	$0.48
Turkeys	$0.62	$0.50	$0.53	$0.74
Corn	$3.71	$3.54	$3.23	$3.32
Soybeans	$8.70	$8.56	$9.30	$9.64
Wheat	$4.64	$5.28	$4.50	$3.90
Beef Cattle	$118.00	$117.00	$118.00	$111.00

The agricultural environment has been challenging during the past several years for many commodities. Currency fluctuations, ample inventories and U.S. trade policies, including retaliatory actions by other countries, have adversely impacted demand and prices for agricultural exports. This has reduced net farm income and eroded working capital from peak levels in 2012. The agriculture sector continues to adjust to market conditions. While producers' financial performance generally has been negatively impacted, MFP, crop insurance and producer operating adjustments have helped offset the severity of stress during the past two years.

Looking ahead, the MFP payments are not anticipated to continue and uncertainty remains about agricultural export markets. As a result, the Association's financial performance and credit quality may be negatively impacted but is expected to

remain sound overall. Additionally, geographic and commodity diversification across the Association coupled with off-farm income support for many borrowers helps to mitigate the impact of periods of less favorable agricultural conditions. However, agricultural borrowers who are more reliant on off-farm income sources may be more adversely impacted by a weakened general economy.

CRITICAL ACCOUNTING POLICIES

The financial statements are reported in conformity with accounting principles generally accepted in the United States of America. Our significant accounting policies are critical to the understanding of our results of operations and financial position because some accounting policies require us to make complex or subjective judgments and estimates that may affect the value of certain assets or liabilities. We consider these policies critical because management must make judgments about matters that are inherently uncertain. For a complete discussion of significant accounting policies, see Note 2, *Summary of Significant Accounting Policies*, of the Notes to the Consolidated Financial Statements. The following is a summary of certain critical policies.

- *Allowance for loan losses* — The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through allowance reversals and loan charge-offs. The allowance for loan losses is determined based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic and political conditions, loan portfolio composition, credit quality and prior loan loss experience.

  Significant individual loans are evaluated based on the borrower's overall financial condition, resources, and payment record, the prospects for support from any financially responsible guarantor, and, if appropriate, the estimated net realizable value of any collateral. The allowance for loan losses encompasses various judgments, evaluations and appraisals with respect to the loans and their underlying security that, by nature, contains elements of uncertainty and imprecision. Changes in the agricultural economy and their borrower repayment capacity will cause these various judgments, evaluations and appraisals to change over time. Accordingly, actual circumstances could vary from the Association's expectations and predictions of those circumstances.

  Management considers the following factors in determining and supporting the levels of allowance for loan losses: the concentration of lending in agriculture, combined with uncertainties in farmland values, commodity prices, exports, government assistance programs, regional economic effects and weather-related influences. Changes in the factors considered by management in the evaluation of losses in the loan portfolios could result in a change in the allowance for loan losses and could have a direct impact on the provision for loan losses and the results of operations.

- *Valuation methodologies* — Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets for which an observable liquid market exists, such as most investment securities. Management utilizes significant estimates and assumptions to value items for which an observable liquid market does not exist. Examples of these items include impaired loans, other property owned, pension and other postretirement benefit obligations, and certain other financial instruments. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on the Association's results of operations.

REGIONAL ECONOMICS

General Economy

With 2019 in the books, Florida's economy appears to be as healthy as can be. Florida's economy is producing in excess of $1 trillion of output annually, and ranks number one in net migration. With this level of growth the state has and will continue to experience growing pains related to transportation and housing prices.

The University of Central Florida's Institute of Economic Competitiveness is projecting the States Real Gross State Product, will expand at an average annual rate of 2.8%. This is faster than the average growth rate of 2.1% expected for the U.S over the same time period. Job growth is expected to remain strong, with the following sectors expecting the strongest growth: Professional & Business Services (4.9%), Construction (2.4%), Leisure & Hospitality (2.1%), Education & Health Services (2.1%), Financial (1.9%), and Federal Government (1.6%).

With strong job creation wages are also expected to increase, with real personal income increasing by an average of 3.2% during 2019 – 2022.

The October 2019 single-family home report, released by Florida Realtors, reveals a market for existing housing that remains tight, fueling price appreciation that has driven prices above the highs of the housing bubble. The median sales price for single family homes increased by $9,147 in October 2018, year over year, and now stands at $263,000—a year over-year price appreciation of a solid 3.6%. Inventories of single-family homes are down slightly from 2018 to a 3.7 month supply.

A strong national economy, strength in Florida's labor market, wage growth, net in migration and rising household wealth should result in continued growth for Florida.

Agricultural Sectors

Agriculture, agribusiness, food processing and manufacturing are still a significant driver to the Florida economy. These business segments provide significant jobs and revenues to the state and local economies.

The agricultural industry in the Central Florida region produces a wide variety of farm commodities with nurseries, citrus and strawberries still the largest market segments and principal commodities financed. None of the commodities produced in the region are included in any USDA government support programs and are not materially impacted by changes in U.S. farm legislation. The agricultural demographics of the region have significantly changed as a result of non-agricultural development, changing consumer demands and the impacts from various pests and diseases.

While the overall agricultural economy in the Central Florida region has been good over the last few years, there are several significant issues that have affected the area. These issues include the introduction of pest and plant diseases such as citrus greening to the citrus industry, weather-related risks, water-use regulations, environmental rules and regulations, land use and growth management regulations, challenges to property rights and a tight labor supply.

Citrus

The citrus industry is an essential part of the Florida economy. Florida Citrus Mutual reports that the citrus industry in the state provides a total economic revenue impact of $9 billion. Florida is second behind Brazil in orange production for juice. The industry supports 76,000 jobs in Florida and is the backbone of many communities in the state's heartland.

While citrus greening continues to be the biggest threat to the industry, improved production practices, which include, higher density plantings, improved nutritional practices, and recently approved bactericide treatments are on the cutting edge of techniques being utilized by Florida growers. Additionally, a variety of incentives such as tax relief, new tree rebates, and irrigation rebates are being offered to reduce the upfront cost for replanting an infected citrus grove.

Results of the annual Commercial Citrus Inventory show total citrus acreage is 430,601 acres, down 4 percent from the last survey and the lowest in a series which began in 1966. The net loss of 16,411 acres is more than twice what was lost last season. New plantings at 10,068 acres are down 17 percent. All citrus trees, at 61.4 million, are down 2 percent from the previous season.

The 2019-2020 Florida all orange forecast released by the USDA Agricultural Statistics Board estimated 74.0 million boxes, 3 percent more than last season's final production. Domestic consumption has slightly decreased since 2014/15, however it appears to be stabilizing around 600 thousand metric tons. Domestic consumption still exceeds domestic production, leaving room for orange juice imports to the United States.

Floriculture and Nursery

With the U.S. economy doing well and growers experiencing economic growth, the horticulture industry is poised for another good year in 2019, according to *Greenhouse Grower*'s 2019 State of the Industry Survey. Growers and suppliers are making money. Sales are up year over year for most growers and suppliers, and the momentum from 2019 will carry over into 2020. The majority of growers and grower-retailers have increased production year over year to account for increased sales and consumption.

The three biggest challenges growers noted to growing their business were age/lack of succession plan, lack of space/cost to construct and finding quality labor, as well as experienced growers, and paying them enough to retain them.

Strawberries

Florida grown strawberry acreage has remained relatively flat for the past five years, thought the mix of conventional vs organic has continued to shift. Florida is the second largest strawberry-producing state with an estimated 11,431 acres planted for the 2019 - 2020 growing season according to The California Strawberry Commission 2020 Acreage Survey. The largest strawberry-producing state with 34,167 acres of strawberries grown is California, with Mexican acreage continuing to increase, reaching 30,400 acres.

Although Florida produces about fifteen percent of the nation's strawberries, it produces nearly all of the berries harvested in the U.S. during the winter months. Production in Mexico over the last decade has increased substantially in response to amplified costs in California. Production has shifted from California to Mexico. This has led to increased volumes produced during the Florida market window and has put pressure on Florida growers. A decrease labor supply is also being felt by the industry, with many growers having to place increased reliance on H2A workers, which can increase costs.

The Florida strawberry industry continues to evolve to remain competitive in the marketplace with increased pressure from Mexico. The industry is developing plants that will produce a quality fruit in the opportune market window earlier in the season. Growers are also expanding into organic production as technologies allow for increases in production that offset the higher costs compared with conventional berries.

LOAN PORTFOLIO

The Association provides funds to farmers, rural homeowners, and farm-related businesses for financing of short and intermediate-term loans and long-term real estate mortgage loans through numerous product types. The Association's loan portfolio is diversified over a range of agricultural commodities in our region, including horticulture, citrus, strawberries, and cattle. Farm size varies and many of the borrowers in the region have diversified farming operations. This factor, along with the numerous opportunities for non-farm income in the area, reduces the level of dependency on a given commodity.

The Association's total servicing loan volume outstanding for the past three years is shown below.

Servicing Loan Volume	December 31, 2019		2018		2017	
	(dollars in thousands)					
Net Loans Outstanding	$ 568,435	59.21%	$ 538,999	58.64%	$ 533,519	59.15%
Participations Sold	185,139	19.29	142,130	15.46	171,555	19.02
Available Commitments	201,087	20.95	230,124	25.04	183,971	20.39
Investments	5,262	0.55	7,913	0.86	13,029	1.44
Total	$ 959,923	100.00%	$ 919,166	100.00%	$ 902,074	100.00%

The diversification of the Association loan volume by type for each of the past three years is shown below.

Loan Type	December 31, 2019		2018		2017	
	(dollars in thousands)					
Real estate mortgage	$ 313,117	55.09%	$ 298,982	55.47%	$ 276,252	51.78%
Production and Intermediate-term	156,828	27.59	143,163	26.56	153,523	28.78
Processing and marketing	60,146	10.58	54,447	10.10	56,244	10.54
Communication	11,450	2.01	14,938	2.77	19,940	3.74
Rural residential real estate	8,257	1.45	8,206	1.52	8,348	1.56
Farm-related business	6,609	1.16	6,330	1.18	8,171	1.53
International	6,435	1.13	5,836	1.08	5,832	1.09
Power and water/waste disposal	3,105	0.55	3,738	0.70	3,831	0.72
Loans to Cooperatives	2,488	0.44	3,359	0.62	1,378	0.26
Total	$ 568,435	100.00%	$ 538,999	100.00%	$ 533,519	100.00%

While we make loans and provide financially related services to qualified borrowers in the agricultural and rural sectors and to certain related entities, our loan portfolio is diversified.

The distribution of the loan volume by line of business for the past three years is as follows:

Line of Business	December 31, 2019	2018	2017
Apopka	8.62%	6.53%	6.15%
Plant City	4.36	3.17	3.81
Brooksville	2.78	2.80	3.13
Lakeland	2.32	2.25	1.96
Agribusiness	59.16	62.04	60.10
Capital Markets	18.82	16.91	19.33
Residential Lending	0.53	2.06	1.86
Special Assets	3.41	4.24	3.66
	100.00%	100.00%	100.00%

Commodity and industry categories are based upon the Standard Industrial Classification (SIC) system published by the federal government. The system is used to assign commodity or industry categories based upon the largest agricultural commodity of the customer.

The major commodities in the Association loan portfolio are shown below. The predominant commodities are livestock, fruits and vegetables, strawberry, nursery, and citrus, which constitute over 68.3 percent of the entire portfolio.

Commodity Group per SIC Codes	December 31, 2019		December 31, 2018		December 31, 2017	
	(dollars in thousands)					
Fruits & Vegetables	$ 91,714	16.13%	$ 81,791	15.17%	$ 58,311	10.93%
Livestock	86,332	15.19	84,584	15.69	100,248	18.79
Strawberries	79,292	13.95	78,265	14.52	72,192	13.53
Nursery	76,374	13.44	65,555	12.16	64,095	12.01
Citrus	54,645	9.61	55,552	10.31	48,514	9.09
Timber	26,942	4.74	25,898	4.80	22,865	4.29
Landlord/Lessors	24,895	4.38	22,182	4.12	23,090	4.33
Blueberries	18,739	3.30	20,802	3.86	21,102	3.96
Poultry	11,240	1.98	10,220	1.90	15,911	2.98
Rural Home	8,039	1.41	7,930	1.47	7,938	1.49
Other	90,223	15.87	86,220	16.00	99,253	18.60
Total	$ 568,435	100.00%	$ 538,999	100.00%	$ 533,519	100.00%

The Association manages concentration risks, both industry and large borrower, through an internal hold limit policy based on individual loan risk ratings, loss given defaults, and industry concentrations. Industry concentrations for hold limit purposes are calculated using the repayment dependency code rather than the SIC code. As a result, for portfolio management purposes, industry classifications are determined based on high dependency of repayment coming from the actual commodity itself. Repayment ability is closely related to the commodities produced by our borrowers, and increasingly, the off-farm income of borrowers. For example, citrus and livestock industries are a large percent of the total portfolio but each also have very low repayment dependency coming from the actual commodity itself. Portfolio management industry concentrations are classified in three concentration levels based on the industry concentration (with high dependency) as a percent of total ACA capital; 1) High – greater than 100% of total capital; 2) Medium – between 50% and 100% of total capital; and 3) Low – less than 50% of total capital. The Association's current loan portfolio contains two medium concentrations, nursery and strawberry industries. All other industries are in the low concentration level.

Portfolio Management Industry as % of Capital	December 31, 2019	2018	2017
	(% of Total Capital)		
Nursery	62.91 %	62.02 %	63.23 %
Strawberries	54.24	56.50	52.60
Cattle	33.91	36.93	37.80
Citrus	22.26	23.31	19.30
Blueberries	11.44	16.23	19.17
Fruits & Vegetables	9.54	9.07	5.11

The concentration of large loans has decreased over the past several years and the agricultural enterprise mix of these loans is diversified and similar to that of the overall portfolio. The risk in the portfolio associated with commodity concentration and large loans is reduced by the range of diversity of enterprises in the Association's territory as well as the internal hold limit policy which limits any additional increases to already high concentrations.

The increase in loan volume for the twelve months ended December 31, 2019, is primarily attributed to increased demand for loans from within the Association's charted territory.

The short-term portfolio, which is cyclical in nature and heavily influenced by operating-type loans, normally reaches a minimum balance in August or September and rapidly increases in the fall months as strawberry and other winter vegetable growers increase their borrowings to prepare for the next crop season. The Association has grown the long-term portfolio through increased long term fully funding loans with guarantees.

Loan participations purchased provides a means for the Association to spread credit concentration risk and realize non-patronage sourced interest and fee income, which strengthens its capital position.

Loan Participations:	December 31, 2019	2018	2017
	(dollars in thousands)		
Participations Purchased – FCS Institutions	$ 107,322	$ 91,470	$ 103,435
Participations Sold	(185,139)	(142,130)	(171,555)
Total	$ (77,817)	$ (50,660)	$ (68,120)

For the years ended December 31, 2019, 2018, and 2017, the Association did not have any loans sold with recourse, retained subordinated participation interests in loans sold, or interests in pools of subordinated participation interests.

The Association sells qualified long-term residential mortgage loans into the secondary market. For the years ended December 31, 2019, 2018, and 2017, the Association originated loans for resale totaling $16,932, $16,777, and $11,275, respectively, which were sold into the secondary market.

The Association also participates in the Farmer Mac Long Term Stand-By program. Farmer Mac was established by Congress to provide liquidity to agricultural lenders. At December 31, 2019, 2018 and 2017, the Association had loans totaling $80,486, $81,046 and $71,460, respectively, that are 100 percent guaranteed by Farmer Mac.

The Association additionally has loans wherein a certain portion of the loans are guaranteed by various governmental entities for the purpose of reducing risk. At December 31, 2019, 2018 and 2017, the balance of these loans was $19,645, $21,465 and $22,509, respectively.

INVESTMENT SECURITIES

As permitted under FCA regulations, the Association is authorized to hold eligible investments for the purposes of reducing interest rate risk and managing surplus short-term funds. The Bank is responsible for approving the investment policies of the Association. The Bank annually reviews the investment portfolio of every Association that it funds. The Association's investments consist of pools of Small Business Administration (SBA) guaranteed loans. These investments carry the full faith and credit of the United States government. The balance of these SBA investments, classified as being held-to-maturity, amounted to $5,262 at December 31, 2019, $7,913 at December 31, 2018, and $13,029 at December 31, 2017. Due to FCA regulations, the Association was not able to purchase new investments for the past several years, and as a result, the balance of these investments has decreased each year. However, the FCA has issued new regulations effective January 1, 2019 that will allow Associations to begin purchasing investments under specific circumstances. The Association plans to re-enter the investment market in 2020.

CREDIT RISK MANAGEMENT

Credit risk arises from the potential inability of an obligor to meet its repayment obligation. As part of the process to evaluate the success of a loan, the Association continues to review the credit quality of the loan portfolio on an ongoing basis. With the approval of the Association Board of Directors, the Association establishes underwriting standards and lending policies that provide direction to loan officers. Underwriting standards include, among other things, an evaluation of:

- Character – borrower integrity and credit history
- Capacity – repayment capacity of the borrower based on cash flows from operations or other sources of income

- Collateral – protection for the lender in the event of default and a potential secondary source of repayment
- Capital – ability of the operation to survive unanticipated risks
- Conditions – intended use of the loan funds

The credit risk management process begins with an analysis of the borrower's credit history, repayment capacity, and financial position. Repayment capacity focuses on the borrower's ability to repay the loan based upon cash flows from operations or other sources of income, including non-farm income. Real estate loans must be collateralized by first liens on the real estate (collateral). As required by FCA regulations, each institution that makes loans on a collateralized basis must have collateral evaluation policies and procedures. Real estate mortgage loans may be made only in amounts up to 85 percent of the original appraised value of the property taken as collateral or up to 97 percent of the appraised value if guaranteed by a state, federal, or other governmental agency. The actual loan to appraised value when loans are made is generally lower than the statutory maximum percentage. With certain exceptions identified in Association policy, appraisals are required for loans of more than $250,000. In addition, each loan is assigned a credit risk rating based upon the underwriting standards. This credit risk rating process incorporates objective and subjective criteria to identify inherent strengths, weaknesses, and risks in a particular relationship.

We review the credit quality of the loan portfolio on an ongoing basis as part of our risk management practices. Each loan is classified according to the Uniform Classification System, which is used by all Farm Credit System institutions. Below are the classification definitions.

- Acceptable – Assets are expected to be fully collectible and represent the highest quality.
- Other Assets Especially Mentioned (OAEM) – Assets are currently collectible but exhibit some potential weakness.
- Substandard – Assets exhibit some serious weakness in repayment capacity, equity, and/or collateral pledged on the loan.
- Doubtful – Assets exhibit similar weaknesses to substandard assets. However, doubtful assets have additional weaknesses in existing facts, conditions and values that make collection in full highly questionable.
- Loss – Assets are considered uncollectible.

The following table presents selected statistics related to the credit quality of loans including accrued interest at December 31.

Credit Quality	2019	2018	2017
Acceptable & OAEM	98.58%	97.72%	97.79%
Substandard	1.42%	2.28%	2.21%
Total	100.00%	100.00%	100.00%

High-Risk Assets

The Association's loan portfolio is divided into performing and high-risk categories. The Special Assets Management Department is responsible for servicing loans classified as high-risk. The high-risk assets, including accrued interest, are detailed below:

	December 31,		
High-risk Assets	**2019**	**2018**	**2017**
	(dollars in thousands)		
Nonaccrual loans	$ 6,967	$ 12,903	$ 8,179
Restructured loans	8,218	8,877	9,758
Accruing loans 90 days past due	–	–	–
Total high-risk loans	$ 15,185	$ 21,780	$ 17,937
Other property owned	–	–	–
Total high-risk assets	$ 15,185	$ 21,780	$ 17,937
Ratios			
Nonaccrual loans to total loans	1.23%	2.39%	1.53%
High-risk assets to total assets	2.57%	3.87%	3.19%

Nonaccrual loans represent all loans where there is a reasonable doubt as to the collection of principal and/or future interest accruals, under the contractual terms of the loan. In substance, nonaccrual loans reflect loans where the accrual of interest has been suspended. Nonaccrual loans decreased $5,936 or 46% in 2019. This decrease is primarily the result of several large nonaccrual liquidations and upgrades out of the nonaccruing portfolio. The largest nonaccrual sectors are blueberry, cattle and diary loans due to the weakness associated with the individual borrower's repayment capacity and continuing decline of overall collateral values. Of the $6,967 in nonaccrual volume at December 31, 2019, $1,269 or 18.21%, was current as to scheduled principal and interest payments, but did not meet all regulatory requirements to be transferred into accrual status compared to 77.67% and 51.25% at December 31, 2018 and 2017, respectively. The Association had no other property owned at December 31, 2019. During 2019, the Association acquired and sold two properties for a net loss on other property owned of $1.

Loan restructuring is available to financially distressed borrowers. Restructuring of loans occurs when the Association grants a concession to a borrower based on either a court order or good faith in a borrower's ability to return to financial viability. The concessions can be in the form of a modification of terms or rates, a compromise of amounts owed, or deed in lieu of foreclosure. Other receipts of assets and/or equity to pay the loan in full or in part are also considered restructured loans. The type of alternative financing structure chosen is based on minimizing the loss incurred by both the Association and the borrower.

Allowance for Loan Losses

The allowance for loan losses at each period end was considered by Association management to be adequate to absorb probable losses existing in and inherent to its loan portfolio. The allowance for loan losses is broken down between specific reserves assigned to an individual loan and general reserves which are available for the expected losses within the entire portfolio. The current allowance for loan losses at December 31, 2019 contains $1,614 in specific reserves and $1,499 in general reserves.

The following table presents the activity in the allowance for loan losses for the most recent three years.

Allowance for Loan Losses Activity:	Year Ended December 31, 2019	2018	2017
	(dollars in thousands)		
Balance at beginning of year	$ 3,270	$ 4,185	$ 4,766
Charge-offs:			
Real estate mortgage	(8)	(5)	(2)
Production and intermediate-term	(6)	(95)	(43)
Rural residential real estate	(10)	(1)	–
Total charge-offs	(24)	(101)	(45)
Recoveries:			
Real estate mortgage	92	44	50
Production and intermediate-term	132	909	84
Rural residential real estate	67	8	8
Total recoveries	291	961	142
Net (charge-offs) recoveries	267	860	97
Provision for (reversal of allowance for) loan losses	(424)	(1,775)	(678)
Balance at end of year	$ 3,113	$ 3,270	$ 4,185
Ratio of net (charge-offs) recoveries during the period to average loans outstanding during the period	0.050%	0.165%	0.020%

The $424 allowance for loan loss reversal taken in 2019 was primarily the result of paydowns and liquidations within the nonaccruing portfolio. The net loan recovery of $291 was also the result of liquidations within the nonaccruing portfolio.

The allowance for loan losses by loan type for the most recent three years is as follows:

Allowance for Loan Losses by Type	December 31, 2019	2018	2017
	(dollars in thousands)		
Real estate mortgage	$ 1,468	$ 1,255	$ 1,116
Production and intermediate-term	1,390	1,749	2,833
Agribusiness	107	100	85
Communication	19	37	48
Power and water/waste disposal	17	5	4
Rural residential real estate	110	122	96
International	2	2	3
Total loans	$ 3,113	$ 3,270	$ 4,185

The allowance for loan losses as a percentage of loans outstanding and as a percentage of certain other credit quality indicators is shown below:

Allowance for Loan Losses as a Percentage of:	December 31, 2019	2018	2017
Total loans	0.55%	0.61%	0.78%
Nonperforming loans	20.50%	15.01%	23.33%
Nonaccrual loans	44.68%	25.34%	51.17%

Please refer to Note 3, *Loans and Allowance for Loan Losses*, of the Notes to the Consolidated Financial Statements, for further information concerning the allowance for loan losses. The Allowance for Loan Losses was determined according to generally accepted accounting principles.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income was $14,737, $13,983, and $12,259 in 2019, 2018 and 2017, respectively. Net interest income is the difference between interest income and interest expense. Net interest income is the principal source of earnings for the Association and is impacted by volume, yields on assets and cost of debt. Higher average daily balances on loan volumes and increased volume and earnings rate on loanable funds are the primary reasons for the increases over 2018. The effects of changes in average volume and interest rates on net interest income over the past three years are presented in the following table:

Change in Net Interest Income:

(dollars in thousands)	Volume*	Rate	Total
12/31/19 - 12/31/18			
Interest income	$ 402	$ 1,175	$ 1,577
Interest expense	79	744	823
Change in net interest income	$ 323	$ 431	$ 754
12/31/18 - 12/31/17			
Interest income	$ 1,265	$ 3,510	$ 4,775
Interest expense	568	2,483	3,051
Change in net interest income	$ 697	$ 1,027	$ 1,724

* *Volume variances can be the result of increased/decreased loan volume or from changes in the percentage composition of assets and liabilities between periods.*

Noninterest Income

Noninterest income for each of the three years ended December 31 is shown in the following table:

Noninterest Income	For the Year Ended December 31, 2019	2018	2017	Percentage Increase/(Decrease) 2019/2018	2018/2017
	(dollars in thousands)				
Loan fees	$ 482	$ 584	$ 721	(17.47)%	(19.00)%
Fees for financially related services	1,034	591	576	74.96	2.60
Patronage refund from other Farm Credit Institutions	6,744	7,894	8,205	(14.57)	(3.79)
Gains (losses) on other rural home loans, net	353	325	253	8.62	28.46
Gains (losses) on sales of premises and equipment, net	16	–	–	100.00	–
Gains (losses) on other transactions	72	(11)	71	(754.55)	(115.49)
Insurance Fund refunds	116	272	–	(57.35)	100.00
Other noninterest income	5	2	2	150.00	–
Total noninterest income	$ 8,822	$ 9,657	$ 9,828	(8.65)%	(1.74) %

Noninterest income decreased $835 or 8.65% for December 31, 2019, as compared to the same period of 2018. December 31, 2018 noninterest income decreased $171 or 1.74% when compared to the same period of 2017. The decrease in noninterest income for 2019 and 2018 is primarily the result of decreases in loan fees and patronage refunds from other Farm Credit Institutions. The Association received a $2,518 special patronage distribution from the Bank in 2019 as compared to $3,529 in 2018 and $3,892 in 2017. Loan fee income decreased by $102 or 17.47% in 2019 while fees for financial related services increased $443 or 74.96% in 2019 due to increased loan activity and improved focus on crop insurance sales. Gains on other rural home loans increased $28 or 8.62% from the prior year due to increased residential lending activity. During 2019, the Association recorded $116 of insurance premium refunds from the Farm Credit System Insurance Corporation (FCSIC), which insures the System's debt obligations, as opposed to $272 in 2018. These payments are nonrecurring and resulted from the assets of the Farm Credit Insurance Fund exceeding the secure base amount as defined by the Farm Credit Act.

Noninterest Expense

Noninterest expense for each of the three years ended December 31 is shown in the following table:

	For the Year Ended December 31,			Percentage Increase/(Decrease)	
Noninterest Expense	**2019**	**2018**	**2017**	**2019/ 2018**	**2018/ 2017**
	(dollars in thousands)				
Salaries and employee benefits	$ 7,867	$ 7,586	$ 7,206	3.70%	5.27%
Occupancy and equipment	735	678	647	8.41	4.79
Insurance Fund premium	379	373	570	1.61	(34.56)
(Gains) losses on other Property owned, net	1	–	66	100.00	(100.00)
Other operating expenses	2,718	2,627	2,021	3.46	29.99
Total noninterest expense	$ 11,700	$ 11,264	$ 10,510	3.87%	7.17%

Noninterest expense increased $436 or 3.87 percent for December 31, 2019, as compared to the same period of 2018 and December 31, 2018 increased $754 or 7.17 percent compared to the same period of 2017. The primary reason for the increase in 2019 was the increase in salaries and employee benefits as well as an increase in other operating expenses.

During 2019, salaries and employee benefits increased 3.70% from 2018 as a result of increased headcount offset by decreased pension expenses. The 5.27% increase during 2018 from 2017 was due to increased headcount and increased pension costs from 2017.

Other operating expenses increased 3.46% during 2019 as compared to 2018 as a result of increased training, travel and purchased services. In 2017 the Association's method of recording expenses for the Association's defined benefit pension plan and other post retirement benefit plan was modified. The change resulted in a reduction of post retirement costs in 2017. This change resulted in a reduction to other operating expenses of $387 in 2017. The Association does not have a corresponding reduction in operating costs for 2018 or 2019. Refer to Note 9, Employee Benefit Plans, of the Notes to the Consolidated Financial Statements, for further information concerning postretirement benefit expenses.

Insurance Fund premiums increased 1.61 percent for the twelve months ended December 31, 2019, compared to the same period of 2018. The Farm Credit System Insurance Corporation (FCSIC) changed the methodology in assessing the insurance premiums as a result of the 2008 Farm Bill. For 2019 and 2018, the FCSIC set premiums at 9 basis points on adjusted insured debt outstanding with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and other than temporarily impaired investments For 2017 the FCSIC set premiums at 15 basis poinsts on adjusted insured debt outstanding for the first six months and 18 basis points for the last six months with an additional 10 basis point premium on the average principal outstanding of nonaccrual loans and any other-than-temporarily impaired investments.

Income Taxes

The Association recorded no provision for income taxes for the year ended December 31, 2019, as compared to no provision for 2018 and 2017. Refer to Note 2, *Summary of Significant Accounting Policies, Income Taxes*, of the Notes to the Consolidated Financial Statements, for more information concerning Association income taxes.

Key Results of Operations Comparisons

Key results of operations comparisons for each of the twelve months ended December 31 are shown in the following table:

Key Results of	For the 12 Months Ended		
Operations Comparisons	**12/31/19**	**12/31/18**	**12/31/17**
Return on average assets	2.23%	2.62%	2.39%
Return on average members' equity	10.78%	13.19%	12.24%
Net interest income as a percentage of average earning assets	2.74%	2.63%	2.44%
Net (charge-offs) recoveries to average loans	0.05%	0.17%	0.02%

The Association's return on average assets decreased by 0.39 basis points and the return on average members' equity decreased by 241 basis points during 2019 compared to 2018 primarily due to decreased reversals of allowance for loan losses and decreased special patronage from AgFirst, offset by increased net interest income and income from financially related services. The net interest income as a percentage of average earning assets, or net interest margin increased 11 basis

points to 2.74% mostly due to increased loanable funds rates. The percentage of net charge-offs and recoveries to average loans was less than one percent in the 2019 reporting period and the Association's recoveries exceeded the total amount of charge-offs.

A key factor in the growth of net income for future years will be continued improvement in net interest and noninterest income as well as maintaining asset quality. Our goal is to generate earnings sufficient to fund operations, adequately capitalize the Association, and achieve an adequate rate of return for our members. To meet this goal, the agricultural economy must continue to grow and the Association must meet certain objectives. These objectives are to attract and maintain high quality loan volume priced at competitive rates and to manage credit risk in our entire portfolio, while efficiently meeting the credit needs of our members.

LIQUIDITY AND FUNDING SOURCES

Liquidity and Funding

The principal source of funds for the Association is the borrowing relationship established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The Bank advances the funds to the Association, creating notes payable (or direct loans) to the Bank. The Bank manages interest rate risk through direct loan pricing and asset/liability management. The notes payable are segmented into variable rate and fixed rate components. The variable rate note is utilized by the Association to fund variable rate loan advances and operating funds requirements. The fixed rate note is used specifically to fund fixed rate loan advances made by the Association. Association capital levels effectively create a borrowing margin between the amount of loans outstanding and the amount of notes payable outstanding. This margin is commonly referred to as "Loanable Funds."

Total notes payable to the Bank at December 31, 2019, was $463,711 as compared to $442,646 at December 31, 2018 and $443,696 at December 31, 2017. The increase of 4.76 percent compared to December 31, 2018 was attributable to the increase in total loan assets. The average daily volume of outstanding notes payable to the Bank was $429,322 and $426,806 for the years ended December 31, 2019 and 2018, respectively. Refer to Note 6, of the Notes to the Consolidated Financial Statements, for weighted average interest rates and maturities, and additional information concerning the Association's notes payable.

Liquidity management is the process whereby funds are made available to meet all financial commitments including the extension of credit, payment of operating expenses and payment of debt obligations. The Association receives access to funds through its borrowing relationship with the Bank and from income generated by operations. The liquidity policy of the Association is to manage cash balances to maximize debt reduction and to increase loan volume. As borrower payments are received, they are applied to the Association's note payable to the Bank. The Association's investments and other secondary market programs provide additional liquidity. Sufficient liquid funds have been available to meet all financial obligations. There are no known trends likely to result in a liquidity deficiency for the Association.

The Association had no lines of credit from third party financial institutions as of December 31, 2019.

Funds Management

The Bank and the Association manage assets and liabilities to provide a broad range of loan products and funding options, which are designed to allow the Association to be competitive in all interest rate environments. The primary objective of the asset/liability management process is to provide stable and rising earnings, while maintaining adequate capital levels by managing exposure to credit and interest rate risks.

Demand for loan types is a driving force in establishing a funds management strategy. The Association offers fixed, adjustable and variable rate loan products that are marginally priced according to financial market rates. Variable rate loans may be indexed to market indices such as the Prime Rate or the 30-day and 90-day London Interbank Offered Rate (LIBOR). Adjustable rate mortgages are indexed to U.S. Treasury Rates. Fixed rate loans are priced based on the current cost of System debt of similar terms to maturity.

The majority of the interest rate risk in the Association's Consolidated Balance Sheets is transferred to the Bank through the notes payable structure. The Bank, in turn, actively utilizes funds management techniques to identify, quantify and control risk associated with the loan portfolio.

Relationship with the Bank

The Association's statutory obligation to borrow only from the Bank is discussed in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, of the Notes to the Consolidated Financial Statements in this annual report. The Bank's ability to access capital of the Association is discussed in Note 4, *Investment in Other Farm Credit Institutions*, of the Notes to the Consolidated Financial Statements. The Bank's role in mitigating the Association's exposure to interest rate risk is described in the "Liquidity and Funding" section of this Management's Discussion and Analysis and in Note 6, *Notes Payable to AgFirst Farm Credit Bank*, included in this annual report.

CAPITAL RESOURCES

Capital serves to support asset growth and provide protection against unexpected credit and interest rate risk and operating losses. Capital is also needed for future growth and investment in new products and services.

The Association Board of Directors establishes, adopts, and maintains a formal written capital adequacy plan to ensure that adequate capital is maintained for continued financial viability, to provide for growth necessary to meet the needs of members/borrowers, and to ensure that all stockholders are treated equitably. There were no material changes to the capital plan for 2019 that would affect minimum stock purchases or would have an effect on the Association's ability to retire stock and distribute earnings.

Total members' equity at December 31, 2019, increased $4,347 to $113,447 from the December 31, 2018, total of $109,100. At December 31, 2018, total members' equity increased 6.19 percent from the December 31, 2017 total of $102,739. The increase in 2019 was primarily attributed to the positive earnings which caused an increase in retained earnings (allocated surplus and unallocated surplus) and by the increase in capital stock and participation certificates being offset by the payment of $6,500 in cash patronage distributions and the revolvement of $1,270 in allocated surplus.

Total capital stock and participation certificates were $942 on December 31, 2019, compared to $882 on December 31, 2018 and $900 on December 31, 2017. The 2019 increase from 2018 was attributed to the issuance of new protected borrower stock and participation certificates due to increased loan volume, partially offset by the retirement of protected borrower stock and participation certificates on loans liquidated in the normal course of business and the retirement of excess stock through revolvement.

Effective January 1, 2017, the regulatory capital requirements for System Banks and associations were modified. The new regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. New regulations replaced core surplus and total surplus ratios with common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based capital ratios. The new regulations also include a tier 1 leverage ratio and an unallocated retained earnings equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

FCA sets minimum regulatory capital requirements with a capital conservation buffer for System banks and associations. Capital adequacy is evaluated using a number of regulatory ratios. According to the FCA regulations, each institution's permanent capital ratio is calculated by dividing permanent capital by a risk adjusted asset base. Risk adjusted assets mean the total dollar amount of the institution's assets adjusted by an appropriate credit conversion factor as defined by regulation. For all periods represented, the Association exceeded minimum regulatory standards for all the ratios. The Association's capital ratios as of December 31 and the FCA minimum requirements follow:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	20.04%	19.91%	18.58%
Tier 1 Capital	6.0%	1.875%	7.875%	20.04%	19.91%	18.58%
Total Capital	8.0%	1.875%	9.875%	20.48%	20.54%	19.50%
Permanent Capital	7.0%	0.0%	7.0%	20.13%	20.03%	18.75%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	19.49%	19.00%	17.80%
URE and UREE Leverage	1.5%	0.0%	1.5%	16.48%	15.61%	14.02%

** The capital conservation buffers have a 3 year phase-in period and will become fully effective January 1, 2020. Risk-adjusted ratio minimums will increase 0.625% each year until fully phased in. There is no phase-in period for the tier 1 leverage ratio.*

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

The following sets forth regulatory Capital ratios as previously reported:

	Regulatory Minimum	2016	2015	2014	2013	2012
Permanent Capital Ratio	7.00%	18.95%	20.42%	21.18%	21.13%	19.15%
Total Surplus Ratio	7.00%	18.77%	20.21%	20.96%	20.87%	18.85%
Core Surplus Ratio	3.50%	17.53%	18.86%	18.24%	17.64%	16.42%

The increase in the Association's Permanent Capital Ratio for December 31, 2019 from December 31, 2018 was attributed to increased capital offset by an increase in risk weighted assets from the prior period. The increase in the actual dollar capital is due to 2019 earnings.

There are no trends, commitments, contingencies, or events that are likely to affect the Association's ability to meet regulatory minimum capital standards and capital adequacy requirements.

See Note 7, *Members' Equity*, of the Consolidated Financial Statements, for further information concerning capital resources.

PATRONAGE PROGRAM

Prior to the beginning of any fiscal year, the Association's Board of Directors, by adoption of a resolution, may establish a Patronage Allocation Program to distribute its available consolidated net earnings. This resolution provides for the application of net earnings in the manner described in the Association's Bylaws. This includes the setting aside of funds to increase surplus to meet minimum capital adequacy standards established by FCA Regulations, to increase surplus to meet Association capital adequacy standards to a level necessary to support competitive pricing at targeted earnings levels, and for reasonable reserves for necessary purposes of the Association. After excluding net earnings attributable to (a) the portion of loans participated to another institution, (b) non-patronage participation loans purchased, and (c) other non-patronage sourced activities, the remaining consolidated net earnings are eligible for allocation to borrowers. Refer to Note 7, *Members' Equity*, of the Notes to the Consolidated Financial Statements, for more information concerning the patronage distributions. The Association declared patronage distributions of $6,500 in 2019, $6,200 in 2018 and $4,600 in 2017.

YOUNG, BEGINNING AND SMALL (YBS) FARMERS AND RANCHERS PROGRAM

The Association's mission is to provide financial services to agriculture and the rural community, which includes providing credit to Young*, Beginning** and Small*** farmers. Because of the unique needs of these individuals, and their importance to the future growth of the Association, the Association has established annual marketing goals to increase our market share of loans to YBS farmers. Specific marketing plans have been developed to target these groups, and resources have been designated to help ensure YBS borrowers have access to a stable source of credit. As a result, 2019 goals for new volume were established. In 2019 the Association achieved all of its YBS goals.

2019 YBS Goals and Results	2019 Goal	2019 Result	% of Goal
Young			
# of New Loans	20	48	240.00%
$ of New Loans	$1,500	$6,413	427.54%
Beginning			
# of New Loans	70	104	148.57%
$ of New Loans	$7,000	$19,435	277.65%
Small			
# of New Loans	125	190	152.00%
$ of New Loans	$12,500	$15,720	125.76%
Total YBS Program			
# of New Loans	215	342	159.07%
$ of New Loans	$21,000	$41,568	197.94%

The following table outlines the loan volume and number of YBS loans in the loan portfolio for the Association.

	As of December 31, 2019	
	Number of Loans	Amount of Loans
Young	117	$14,576
Beginning	330	38,672
Small	665	52,605

Note: For purposes of the above table, a loan could be classified in more than one category, depending upon the characteristics of the underlying borrower.

The 2012 USDA Ag census data has been used as a benchmark to measure penetration of the Association's marketing efforts. The census data indicated that within the Association's chartered territory (counties) there were 16,257 reported farmers of which by definition 576 or 3.54 percent were Young, 3,070 or 18.88 percent were Beginning, and 12,611 or 77.58 percent were Small. Comparatively, as of December 31, 2019, the demographics of the Association's agricultural portfolio contained 1,112 YBS farmers, of which by definition 117 or 10.52 percent were Young, 330 or 29.68 percent were beginning and 665 or 59.8 percent were Small.

The Association Board of Directors has adopted a Young, Beginning, and Small Farmer Plan with specific goals for the number of loans and new volume closed for 2019 and two succeeding years. The Association will continue to review the demographics of its territory during 2020 utilizing 2012 Ag census data.

The following strategies and outreach programs have been conducted which assists and supports the Association's efforts to meet its objectives and goals for financing to the Young, Beginning, and Small farmers.

- Support of 4-H, FFA, and young farmer organizations through sponsorships and donations.
- Sponsor seminars on farm transition planning and financial management.
- Youth livestock financing program for Youth Steer and Swine Shows. Available territory wide.
- Financial Training in cooperation with Florida Southern College, Citrus and Horticulture Dept.
- Employees serve as judges for youth livestock project record books.
- Sponsor participants and participate in Florida Council of Coops, Young Cooperator Conference.
- Sponsor Florida Nursery Growers Young Professional Award.
- Sponsors and attends the statewide Farm Bureau Young Farmers and Ranchers Leadership Conference.

In addition, the Association's lending personnel actively participate in various commodity trade group conferences and continuing education programs. Association lenders have established performance goals to provide informational and financial training to agricultural youth groups and industry trade associations.

The Association is committed to the future success of Young, Beginning and Small farmers.

* Young farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who are age 35 or younger as of the date the loan is originally made.

** Beginning farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who have 10 years or less farming or ranching experience as of the date the loan is originally made.

*** Small farmers are defined as those farmers, ranchers, producers or harvesters of aquatic products who normally generate less than $250 in annual gross sales of agricultural or aquatic products at the date the loan is originally made.

REGULATORY MATTERS

On February 13, 2020, the Farm Credit Administration approved a rule that clarifies the factors that System institutions should consider when categorizing high-risk loans and placing them in nonaccrual status. The rule also revises the criteria by which loans are reinstated to accrual status, and revises the application of the criteria to certain loans in nonaccrual status to distinguish between the types of risk that cause loans to be placed in nonaccrual status.

On September 18, 2019, the Farm Credit Administration issued a proposed rule to amend its investment regulations to allow System associations to purchase and hold the portion of certain loans that non-System lenders originate and sell in the secondary market, and that the USDA unconditionally guarantees or insures as to timely payment of principal and interest. The rule would authorize associations to buy investments to augment the liquidity of rural credit markets, reduce the capital burden on community banks and other non-System lenders who choose to sell their USDA guaranteed portions of loans, and to enhance the ability of associations to manage risk. The public comment period ended on November 18, 2019.

On September 23, 2019, the Farm Credit Administration issued a proposed rule that would ensure the System's capital requirements, including certain regulatory disclosures, reflect the current expected credit losses methodology, which revises the accounting for credit losses under U.S. generally accepted accounting principles. The proposed rule identifies which credit loss allowances under the Current Expected Credit Losses (CECL) methodology in the Financial Accounting Standards Board's "Measurement of Credit Losses on Financial Instruments" are eligible for inclusion in a System institution's regulatory capital. Credit loss allowances related to loans, lessor's net investments in leases, and held-to-maturity debt securities would be included in a System institution's Tier 2 capital up to 1.25 percent of the System institution's total risk weighted assets. Credit loss allowances for available-for-sale debt securities and purchased credit impaired assets would not be eligible for inclusion in a System institution's Tier 2 capital. In addition, the proposed regulation does not include a transition phase-in period for the CECL day 1 cumulative effect adjustment to retained earnings on a System institution's regulatory capital ratios. The public comment period ended on November 22, 2019.

FUTURE OF LIBOR

In 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. The Association has exposure to LIBOR, including in financial instruments that reference LIBOR that mature after 2021.

The exposure arises primarily from loans made to customers and the note payable to AgFirst Farm Credit Bank. Alternative reference rates that replace LIBOR may not yield the same or similar economic results over the lives of the financial instruments, which could adversely affect the value of, and return on, instruments held. In addition, to the extent that a successful transition of the LIBOR-based financial instruments to an alternative rate based index that is endorsed or supported by regulators and generally accepted by the market as a replacement to LIBOR, there could be other ramifications including those that may arise as a result of the need to redeem or terminate such instruments.

Due to the uncertainty regarding the transition of LIBOR-based financial instruments, including when it will happen, the manner in which an alternative reference rate will apply, and the mechanisms for transitioning LIBOR-based instruments to instruments with an alternative rate, the expected financial impact of the LIBOR transition cannot yet be reasonably estimated.

The FCA has issued guidelines for System institutions to follow as they prepare for the expected phase-out of LIBOR. The guidelines direct each System institution to develop a LIBOR transition plan designed to provide an orderly roadmap of actions that will reduce LIBOR exposure over time. The FCA identified the following as important considerations in the development of each entity's transition plan:

- a governance structure to manage the transition,
- an assessment of exposures to LIBOR,
- an assessment of the fallback provisions in contracts and the impact of a LIBOR phase-out under those provisions,
- the establishment of strategies for reducing each type of LIBOR exposure,
- an assessment of the operational processes that need to be changed,
- a communication strategy for customers and shareholders,
- the establishment of a process to stay abreast of industry developments and best practices,
- the establishment of a process to ensure a coordinated approach, to the extent possible, across the District, and
- a timeframe and action steps for completing key objectives.

The Association will continue to analyze potential risks associated with the LIBOR transition, including financial, accounting, operational, legal, reputational and compliance risks.

At this time, it is difficult to predict whether or when LIBOR will cease to be available or if SOFR will become the benchmark to replace LIBOR. Because transactions occur involving financial instruments that reference LIBOR, these developments could have a material impact on the Association, borrowers, investors, and counterparties.

The following is a summary of Association variable-rate financial instruments with LIBOR exposure at December 31, 2019:

(dollars in millions)	Due in 2020	Due in 2021	Due in 2022 and Thereafter
Loans	$ 21,988	$ 41,829	$ 117,559
Total Assets	$ 21,988	$ 41,829	$ 117,559
Note Payable to AgFirst Farm Credit Bank	$ 17,629	$ 33,536	$ 94,251
Total Liabilities	$ 17,629	$ 33,539	$ 94,251

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Please refer to Note 2, *Summary of Significant Accounting Policies*, in the Notes to the Consolidated Financial Statements for recently issued accounting pronouncements.

The following Accounting Standards Updates (ASUs) were issued by the Financial Accounting Standards Board (FASB) but have not yet been adopted:

Summary of Guidance	Adoption and Potential Financial Statement Impact
ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	
• Replaces multiple existing impairment standards by establishing a single framework for financial assets to reflect management's estimate of current expected credit losses (CECL) over the complete remaining life of the financial assets. • Changes the present incurred loss impairment guidance for loans to an expected loss model. • The Update also modifies the other-than-temporary impairment model for debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. • Eliminates existing guidance for purchased credit impaired (PCI) loans, and requires recognition of an allowance for expected credit losses on these financial assets. • Requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption. • Effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application is permitted.	• Implementation efforts began with establishing a cross-discipline governance structure. The implementation includes identification of key interpretive issues, scoping of financial instruments, and assessing existing credit loss forecasting models and processes against the new guidance. • The new guidance is expected to result in a change in allowance for credit losses due to several factors, including: 1. The allowance related to loans and commitments will most likely increase to cover credit losses over the full remaining expected life of the portfolio, and will consider expected future changes in macroeconomic conditions, 2. An allowance will be established for estimated credit losses on any debt securities, 3. The nonaccretable difference on any PCI loans will be recognized as an allowance, offset by an increase in the carrying value of the related loans. • The extent of change is under evaluation, but will depend upon the nature and characteristics of the financial instrument portfolios, and the macroeconomic conditions and forecasts at the adoption date. • The guidance is expected to be adopted in first quarter 2023.

Disclosure Required by Farm Credit Administration Regulations

Description of Business

Descriptions of the territory served, persons eligible to borrow, types of lending activities engaged in, financial services offered and related Farm Credit organizations are incorporated herein by reference to Note 1, *Organization and Operations*, of the Consolidated Financial Statements included in this Annual Report to shareholders.

The description of significant developments that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting the business, seasonal characteristics, and concentrations of assets, if any, is incorporated in *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this Annual Report.

Unincorporated Business Entities

The Association had no unincorporated business entities at December 31, 2019.

Description of Property

The following table sets forth certain information regarding the properties of the reporting entity, all of which are located in Florida:

Location	Description	Form of Ownership
115 S. Missouri Ave.* Lakeland	Administrative/ Branch	Leased
57 E. Third Street Apopka	Branch	Owned
2301 Thonotosassa Road Plant City	Branch	Owned
31050 Cortez Blvd. Brooksville	Branch	Owned

* *The Administrative / branch office located at 115 S. Missouri Ave. is leased through December 31, 2020. The Association intends to enter a new lease and relocate the Administrative/Branch location in 2020.*

Legal Proceedings

Information, if any, to be disclosed in this section is incorporated herein by reference to Note 11, *Commitments and Contingencies*, of the Consolidated Financial Statements included in this Annual Report.

Description of Capital Structure

Information to be disclosed in this section is incorporated herein by reference to Note 7, *Members' Equity*, of the Consolidated Financial Statements included in this Annual Report.

Description of Liabilities

The description of liabilities, contingent liabilities and obligations to be disclosed in this section is incorporated herein by reference to Notes 2, 6, 9 and 11 of the Consolidated Financial Statements included in this Annual Report.

Management's Discussion and Analysis of Financial Condition and Results of Operations

"Management's Discussion and Analysis of Financial Condition and Results of Operations," which appears in this Annual Report and is to be disclosed in this section, is incorporated herein by reference.

Senior Officers

The following represents certain information regarding the senior officers of the Association and their business experience for the past five years:

Senior Officer	Time in Position	Prior Experience
Reginald T. Holt, *President & Chief Executive Officer*	11 years	Sr. VP & Director of Agribusiness Lending from October 1997 to April 2008. Area VP from June 1992 to October 1997. Also serves on the Executive Committee of the AgFirst Farm Credit Council and the AgFirst/Farm Credit Bank of Texas Benefits Plan Sponsor Committee.
D. Scott Fontenot, *Executive Vice President & Chief Operating Officer*	3 years	Association CFO from June 2009 until September 2016. Association Director of Risk Management from March 2009 to June 2009. EVP & CFO of Jack M. Berry, Inc. from 2005 to 2009. CFO of Farm Credit of Southwest Florida from 2000 to 2004.
Scarlet D. Detjen, *Sr. Vice President / Chief Credit Officer*	2.5 years	Association Chief Audit Executive from November 2016 to June 2017. Director of Internal Audit from October 2008 until November 2016. CFO with SunnyRidge Farm, Inc. from 2006 until 2008. Controller with SunnyRidge Farm, Inc. from 2001 to 2008.
Anne M. Sullivan, *Sr. Vice President / Corporate Treasurer, Chief Financial Officer*	3 years	Association Controller from June 2011 until September 2016. Director of Accounting with Century Residential, LLC from June 2009 until June 2011. Senior Accountant with the NCT Group from September 2006 until June 2009.

The total amount of compensation earned by the CEO and the highest paid officers as a group during the years ended December 31, 2019, 2018 and 2017 is as follows:

Name of Individual or Number in Group	Year	Salary	Bonus	Deferred Comp.	Change in Pension Value	Perq/ Other*	Total
Reginald T. Holt	2019	$ 372,014	$ 130,279	$ –	$ 572,128	$ –	$ 1,074,421
Reginald T. Holt	2018	$ 359,013	$ 119,623	$ –	$ (72,600)	$ –	$ 406,036
Reginald T. Holt	2017	$ 345,014	$ 116,753	$ –	$ 88,678	$ –	$ 550,445
6	2019	$ 1,143,706	$ 346,683	$ –	$ 444,978	$ –	$ 1,935,367
6	2018	$ 1,086,381	$ 270,328	$ –	$ (59,262)	$ –	$ 1,297,447
7	2017	$ 1,026,291	$ 246,821	$ –	$ 212,031	$ –	$ 1,485,143

** Amounts in the above table classified as Perquisites include travel incentives, group life insurance, automobile compensation, purchased automobile, spousal travel, relocation and tuition reimbursement, if the annual aggregate value of such Perquisites is more than $5,000.*

Disclosure of information on the total compensation paid during 2018 to any senior officer or to any other employee included in the aggregate group total as reported in the above is available and will be disclosed to the shareholders of the institution upon request.

In addition to base salary, all Association employees (except the Director of Internal Audit and internal audit and review staff who may earn additional compensation under the Auditor Incentive Plan) may earn additional compensation under a corporate bonus plan (Plan). The Plan is designed to encourage participants to achieve the objectives of the Association by providing incentives to those employees who attain and sustain consistently high levels of performance, which contribute to the overall success and profitability of the Association. The Plan is designed to support the ACA's organizational vision, long-range and annual strategic plans. The Plan consists of two pools; 1) General Pool; and 2) Loan Officer Pool.

The General Pool covers all employees that are not lenders and/or lending managers. The payout of the pool is based on the Association meeting and exceeding certain objectives for Earnings and Liquidity (weighted at 50%), Asset Quality and Credit Administration (weighted at 25%), and Lending and Growth (weighted at 25%). Payments are calculated at year-end based on the weighted average performance in each category, paid 100 percent in cash. The General Pool contains four different payout levels. Level 1 contains all non-exempt employees (for wage and salary administration purposes) and the maximum award at this level shall not exceed 5% of their annual earned salary. Level 2 contains exempt employees (except CEO, Senior Officers, Director of Internal Audit, and employees identified as "lenders") and the maximum award at this level shall not exceed 12% of their annual earned salary. Level 3 contains Senior Officers (except CEO, Director of Internal Audit, and employees identified as "lenders") and the maximum award at this level shall not exceed 25% of their annual earned salary. Level 4 contains the CEO only and the maximum award at this level shall not exceed 40% of the annual earned salary. Each of the levels requires a certain minimum individual employee evaluation score. In addition, the General Pool limits the total of all payments within the pool to a maximum of 10 percent of the total net income.

The Loan Officer Pool covers lenders and the lending managers and is based upon the individual performance of each. Award percentage points are earned for Portfolio Management (weighted 65%) and Loan Administration (weighted 35%) standards based upon a points scoring matrix with performance areas weighted according to the individual's standard of performance. Deductions to earned awards shall be made for the individual's performance score in the area of Loan Administration (asset quality and delinquencies). Payments at this level are calculated at year-end based on the weighted average performance in each category and also

require a certain minimum individual employee evaluation score. The maximum award at this level shall not exceed 50% of their annual earned salary for all employees who have executed a non-disclosure and non-solicitation agreement and 30% of their annual earned salary for all employees who have not executed a non-disclosure and non-solicitation agreement. All payments are paid 100% in cash.

The Director of Internal Audit and internal audit and review staff may earn additional compensation under the Auditor Incentive Plan. The purpose of the plan is to encourage participants to achieve the long-term objectives of the Association by providing incentives to eligible audit staff that attain and sustain consistently high levels of performance, which contribute to the safety and soundness of the Association. The pay-out of the plan is based on the audit employee's performance rating as determined by their respective employee evaluations. The Director of Internal Audit's evaluation is conducted by the audit committee and reviewed by the board. The audit staff's evaluation is conducted by the Director of Internal Audit and reviewed by the audit committee. While the award is based on the employee's performance the final pay-out is made at the discretion of the board of directors.

Payment of the 2019 Corporate Bonus is in the first quarter of 2020. Bonuses are shown in the year earned, which may be different than the year of payment.

In 2016, the CEO, Mr. Holt, and the Association entered into a change of control agreement. Should a change of control occur, the Association will continue to employ Mr. Holt for a minimum of three years. Should his employment be terminated during the two years prior or the three years after the change of control or should any major changes to the employment conditions occur during the same time periods, Mr. Holt will be entitled to a severance package as outlined in the agreement.

For the Retirement Plan, the present value of pension benefits is the value at a specific date of the benefit payment stream an individual is expected to receive upon retirement based on pay and service earned to date. These present values change year over year as (1) pension benefits increase due to an additional year of pay and service being earned under the benefit formula, (2) individuals are one year closer to receiving payments, and (3) the assumptions used to determine the present value change.

The present value of Retirement Plan pension benefits will naturally increase as the benefits earned under the plan increase. Since the pension benefit formula is dependent on base pay, pay increases directly impact the pension values.

The present values are calculated by discounting each expected future benefit payment back to the determination date at a specified interest (or discount) rate. When a year passes, there is one less year of discounting, which increases the present value.

Finally, the present value of the expected future benefit payment stream is based on actuarial assumptions, chiefly the discount rate mentioned above. Other assumptions are also used, such as expected retirement age and life expectancy. Changes in the actuarial assumptions can increase or decrease the pension values. The discount rate is updated every year based on the interest rate environment at December 31. A decrease in the discount rate (i.e. less discounting) increases the present values and vice versa. There was a significant decrease in the discount rate assumption from December 31, 2018 to December 31, 2019, causing the pension values to increase.

Other actuarial assumptions are updated periodically. At December 31, 2019, the mortality improvement assumptions were updated to reflect recent mortality studies. These changes resulted in a minor increase in Retirement Plan present values.

Pension Benefits Table
As of December 31, 2019

Name of Individual or Number in Group	Year	Plan Name	Number of Years Credited Service	Actuarial Present Value of Accumulated Benefits	Payments During 2019
CEO:					
Reginald T. Holt	2019	AgFirst Retirement Plan	39.83	$ 3,384,999	$ –
Reginald T. Holt	2019	Supplemental Executive Retirement Plan	39.83	956,543	–
				$ 4,341,542	$ –
Senior Officers and Highly Compensated Employees:					
6 Officers, excluding the CEO	2019	AgFirst Retirement Plan	12.22*	$ 1,413,881	$ –
				$ 1,413,881	$ –

* *Represents the average years of credited service for the group*

Mr. Holt participates in the AgFirst Farm Credit Bank Supplemental Retirement Plan, a nonqualified supplemental executive retirement plan. Benefits that would have accrued in the qualified defined benefit retirement plan in the absence of Internal Revenue Code limitations are made up through the nonqualified supplemental executive retirement plan. At the election of the retiree, benefits are paid based upon various annuity terms.

As a non-qualified plan, assets have been allocated and separately invested for this plan, but are not isolated from the general creditors of the Association. Additionally, all employees are reimbursed for all direct travel expenses incurred when traveling on Association business. A copy of the travel policy is available to shareholders upon written request.

Directors

The following chart details the year the director began serving on the board, the current term of expiration, current committee assignments, number of meetings, other activities, compensation for Board meetings and other activities and total cash compensation paid:

		Term in Office		Number of Days Served		Compensation	
Director	Position	Election or Appointment Year	Current Term Expiration	Board Meetings	Other Official Activities*	Total Paid During 2019	Committee Assignments^
W. Rex Clonts, Jr.	Chair	1997	2021	7	26	$ 35,667	Audit, Governance, Legislative
Keith D. Mixon	Vice-Chair	2012	2020	7	18	30,333	Audit, Governance, Legislative
Daniel T. Aprile	Director	2019	2022	5	11	22,333	Compensation, Risk Management, Legislative
Robert M. Behr	Director	2019	2021	4	8	21,000	Audit, Compensation, Legislative
Jenny R. Black (2)	Director	2014	2021	7	18	31,333	Governance, Risk Management, Legislative
C. Dennis Carlton, Sr.(3)	Director	2004	2022	7	18	32,000	Risk Management, Compensation, Legislative
William L. Klinger	Director	2019	2022	5	11	21,000	Audit, Governance, Legislative
John S. Langford	Director	2005	**	1	0	2,333	
Randy L. Larson	Outside Director	2017	2020	7	20	25,667	Compensation, Governance, Legislative
David A. Mereness (1)	Outside Director	2016	2022	7	16	32,667	Audit, Risk Management, Legislative
Robert R. Roberson	Director	1997	***	3	4	9,834	
Randall E. Strode	Director	2016	2020	7	17	30,000	Risk Management, Compensation, Legislative
Ronald R. Wetherington (4)	Director	1993	2020	7	16	32,333	Audit, Risk Management, Legislative
						$ 326,500	

** Includes board committee meetings and other board activities other than regular board meetings.*
***John S. Langford resigned from the Board on February 5, 2019*
****Robert R. Roberson resigned from the Board on April 9, 2019*
^ All directors are members of the Legislative committee and meetings are held as needed.

(1) Chair of the Audit Committee
(2) Chair of the Governance Committee
(3) Chair of the Compensation Committee
(4) Chair of the Risk Management Committee

Subject to approval by the board, the Association may allow directors an annual retainer of $28,000 to be paid monthly. Additionally, members of the risk management committee receive $2,000. The chairs of the Compensation and Governance committees also receive $2,000. The chair of the audit committee receives $5,000, and the chair of the Board receives $7,000. All additional compensation amounts are annual stipends, paid monthly. Total compensation paid to directors as a group was $326,500 for 2019. No director received more than $5,000 in non-cash compensation during the year.

Directors are reimbursed on an actual cost basis for all expenses incurred in the performance of official duties. Such expenses may include transportation, lodging, meals, tips, tolls, parking of cars, laundry, registration fees, and other expenses associated with travel on official business. A copy of the policy is available to shareholders of the Association upon request.

The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was $61,890 for 2019, $87,278 for 2018 and $101,156 for 2017.

The following represents certain information regarding the directors of the Association, including their principal occupation and employment for the past five years. Unless specifically listed, the principal occupation of the board member for the past five years has been as a self-employed farmer.

W. Rex Clonts, Jr., Chair, is a citrus and vegetable grower and serves on the board of Citizens Bank of Florida. He is also President of Seminole County Farm Bureau. Mr. Clonts is on the board of the Florida Fruit and Vegetable Association. His principal occupation and employment for the past 5 years was with Clonts Groves, Inc.

Keith D. Mixon, Vice-Chair, is a citrus grower and past Chair of the board of the Florida Fruit and Vegetable Association. He and his family owned and operated SunnyRidge Farms prior to being sold to Dole Food Company, he then served as President of Dole Berry Company. Mr. Mixon serves on the Association's Governance and Audit Committee and also serves as the Association's representative on the AgFirst Nominating Committee. His principal occupation and employment for the past 5 years was self-employed farmer.

Daniel T. Aprile was elected to the Board in April 2019. Mr. Aprile is the Manager of Golden A Cattle Company, LLC and Aprile Farms, Inc. located in Tampa. Mr. Aprile is a member of the Hillsborough County Independent Oversight Committee

and on the Hillsborough County Economic Development Council. His principal occupation and employment for the past five years was with Golden A Cattle Company, LLC and Aprile Farms, Inc.

Robert M. Behr was elected to the Board in April 2019. Dr. Behr is the CEO of Citrus World, Inc. and its subsidiaries, World Citrus West, Inc., Florida's Natural Growers, Inc. (FNG), Florida's Natural Food Service Inc., Citrus World Services Inc. and Hickory Branch Corporation, a citrus growing, processing and marketing organization. Dr. Behr is also a member of the CoBank board of directors. His principal occupation and employment for the past five years has been as the CEO of Citrus World, Inc. and its subsidiaries.

Jenny R. Black has served on the Board since 2014. Mrs. Black is a partner in multiple citrus growing operations and is a member of Peace River Packing, a citrus growing cooperative. Mrs. Black has more than 20 years experience in the Information Technology field and her primary employment since 2008 has been managing her own IT consulting practice. Jenny Black Consulting, LLC serves clients in the transportation and agriculture industries. Mrs. Black was elected to the AgFirst Farm Credit Bank Board in August 2018 and the board of the National Farm Credit Council. Mrs. Black also serves on the Polk County 4H Foundation Board, the Advisory Board for Volunteers in Service to the Elderly (VISTE), and the Board of Trustees at All Saints Academy.

C. Dennis Carlton, Sr. is a cattleman, real estate investor and real estate broker and serves on the boards of Center State Bank and the Agricultural Economic Development Council of Hillsborough County. His principal occupation and employment for the past 5 years was self-employed rancher.

William L. Klinger was elected to the Board in April 2019. Mr. Klinger is the Treasurer of Lake Brantley Nurseries, Inc., an ornamental horticulture nursery with over 265 acres across multiple locations in two states and headquartered in Winter Garden. Mr. Klinger is the past State President of the Florida Nursery, Growers and Landscape Association. His principal occupation and employment for the past 35 years has been with Brantley Nurseries.

Randy L. Larson was appointed to the Board in December 2016 as the Association's second Outside Director. Mr. Larson is currently serving on the Board for the Tampa Sports Authority. He is a licensed professional engineer, a registered general contractor in Florida and a Certified Construction Manager. His principal occupation and employment for the past 5 years was with R Larson Company.

David A. Mereness was appointed to the Board in March 2016 as the Association's Outside Director. Mr. Mereness is the Managing Partner of Dearolf & Mereness LLP, a member of the American Institute of Certified Public Accountants, the Florida Institute of Certificated Public Accounts and on the board of the National Society of Accountants for Cooperatives. His principal occupation and employment for the past 5 years was with Dearolf & Mereness LLP.

Randall E. Strode was elected to the Board in April 2016. Mr. Strode is the Founder and Vice President of AgriStarts, Inc. a cloning tissue culture operation in Apopka, FL. His principal occupation and employment for the past 35 years was with AgriStarts, Inc.

Ronald R. Wetherington is a strawberry grower and serves on the South Florida Baptist Hospital Foundation Board and Hillsborough County Law Enforcement Association Board. His principal occupation and employment for the past 5 years was with Wetherington Farms.

Transactions with Senior Officers and Directors

The reporting entity's policies on loans to and transactions with its officers and directors, to be disclosed in this section are incorporated herein by reference to Note 10, *Related Party Transactions*, of the Consolidated Financial Statements included in this Annual Report. There have been no transactions between the Association and senior officers or directors which require reporting per FCA regulations.

Involvement in Certain Legal Proceedings

There were no matters which came to the attention of management or the board of directors regarding involvement of current directors or senior officers in specified legal proceedings which should be disclosed in this section. No directors or senior officers have been involved in any legal proceedings during the last five years which require reporting per FCA regulations.

Relationship with Independent Auditors

There were no changes in or material disagreements with our Independent Auditors on any matter of accounting principles or financial statement disclosure during this period.

Aggregate fees for services rendered by its Independent Auditor for the year ended December 31, 2019 were as follows:

	2019
Independent Auditor	
PricewaterhouseCoopers LLP	
Audit services	$ 70,714
Total	$ 70,714

PricewaterhouseCoopers audit fees were for the annual audit of and for rendering an opinion on the Association's Consolidated Financial Statements.

Consolidated Financial Statements

The Consolidated Financial Statements, together with the report thereon of PricewaterhouseCoopers LLP dated March 12, 2020 and the report of management, which appear in this Annual Report, are incorporated herein by reference.

Copies of the Association's Annual and unaudited Quarterly reports are available upon request free of charge by calling 1-800-533-2773 or writing Anne M. Sullivan, Chief Financial Officer, Farm Credit of Central Florida, ACA, P.O. Box 8009, Lakeland, FL 33802 or accessing the web site, ***www.farmcreditcfl.com***. The Association prepares an electronic version of the Annual Report which is available on the Association's web site within 75 days after the end of the fiscal year and distributes the Annual Reports to shareholders within 90 days after the end of the fiscal year. The Association prepares an electronic version of the Quarterly report within 40

days after the end of each fiscal quarter, except that no report need be prepared for the fiscal quarter that coincides with the end of the fiscal year of the institution.

Borrower Information Regulations

Since 1972, Farm Credit Administration (FCA) regulations have required that borrower information be held in strict confidence by Farm Credit System (FCS) institutions, their directors, officers and employees. These regulations provide Farm Credit institutions clear guidelines for protecting their borrowers' nonpublic personal information.

On November 10, 1999, the FCA Board adopted a policy that requires FCS institutions to formally inform new borrowers at loan closing of the FCA regulations on releasing borrower information and to address this information in the Annual Report. The implementation of these measures ensures that new and existing borrowers are aware of the privacy protections afforded them through FCA regulations and Farm Credit System institution efforts.

Credit and Services to Young, Beginning, and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products

Information to be disclosed in this section is incorporated herein by reference to the similarly named section in the Management's Discussion and Analysis of Financial Condition and Results of Operations section included in this Annual Report to the shareholders.

Shareholder Investment

Shareholder investment in the Association could be materially affected by the financial condition and results of operations of AgFirst Farm Credit Bank (Bank or AgFirst). Copies of the Bank's Annual and Quarterly reports are available upon request free of charge by calling 1-800-845-1745, ext. 2832, or writing Susanne Caughman, AgFirst Farm Credit Bank, P. O. Box 1499, Columbia, SC 29202. Information concerning AgFirst Farm Credit Bank can also be obtained by going to AgFirst's web site at ***www.agfirst.com***. The Bank prepares an electronic version of the Annual Report, which is available on the website, within 75 days after the end of the fiscal year. The Bank prepares an electronic version of the Quarterly report within 40 days after the end of each fiscal quarter, except that no report needs to be prepared for the fiscal quarter that coincides with the end of the fiscal year of the Bank.

Report of the Audit Committee

The Audit Committee of the Board of Directors (Committee) is comprised of the directors named below. None of the directors who serve on the Committee is an employee of Farm Credit of Central Florida, ACA and in the opinion of the Board of Directors, each is free of any relationship with the Association or management that would interfere with the director's independent judgment on the Committee.

The Committee has adopted a written charter that has been approved by the Board of Directors. The Committee has reviewed and discussed the Association's audited financial statements with management, which has primary responsibility for the financial statements.

PricewaterhouseCoopers LLP (PwC), the Association's Independent Auditor for 2019, is responsible for expressing an opinion on the conformity of the Association's audited financial statements with accounting principles generally accepted in the United States of America. The Committee has discussed with PwC the matters that are required to be discussed by Statement on Auditing Standards No. 114 *(The Auditor's Communication With Those Charged With Governance)*. The Committee discussed with PwC its independence from Farm Credit of Central Florida, ACA. The Committee also reviewed the non-audit services provided by PwC and concluded that these services were not incompatible with maintaining PwC's independence.

The Committee has also concluded that PwC's provision of non-audit services, if any, to the Association is compatible with PwC's independence.

Based on the considerations referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in the Association's Annual Report for 2019. The foregoing report is provided by the following independent directors, who constitute the Committee:

David A. Mereness
Chair of the Audit Committee

Members of Audit Committee

Robert M. Behr, Vice Chair
W. Rex Clonts, Jr.
William L. Klinger
Keith D. Mixon
Ronald R. Wetherington

March 12, 2020

Report of Independent Auditors

To the Board of Directors and Management of Farm Credit of Central Florida, ACA

We have audited the accompanying consolidated financial statements of Farm Credit of Central Florida, ACA and its subsidiaries (the "Association"), which comprise the consolidated balance sheets as of December 31, 2019, 2018 and 2017, and the related consolidated statements of income, of comprehensive income, of changes in members' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Association's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Farm Credit of Central Florida, ACA and its subsidiaries as of December 31, 2019, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 12, 2020

PricewaterhouseCoopers LLP, *1075 Peachtree Street NE Suite 2600 Atlanta, Georgia 30309*
T: 678 419 1000, www.pwc.com/us

Consolidated Balance Sheets

(dollars in thousands)	December 31, 2019	2018	2017
Assets			
Cash	**$ 14**	$ 189	$ 53
Investments in debt securities:			
Held to maturity (fair value of $5,205, $7,865, and $13,278, respectively)	**5,262**	7,913	13,029
Loans	**568,435**	538,999	533,519
Allowance for loan losses	**(3,113)**	(3,270)	(4,185)
Net loans	**565,322**	535,729	529,334
Loans held for sale	**—**	—	676
Accrued interest receivable	**2,394**	2,412	1,963
Equity investments in other Farm Credit institutions	**6,677**	6,568	6,318
Premises and equipment, net	**2,583**	1,747	856
Accounts receivable	**6,984**	8,055	8,951
Other assets	**1,188**	735	634
Total assets	**$ 590,424**	$ 563,348	$ 561,814
Liabilities			
Notes payable to AgFirst Farm Credit Bank	**$ 463,711**	$ 442,646	$ 443,696
Accrued interest payable	**1,197**	1,243	1,052
Patronage refunds payable	**6,691**	6,352	4,872
Accounts payable	**653**	1,521	1,710
Other liabilities	**4,725**	2,486	7,745
Total liabilities	**476,977**	454,248	459,075
Commitments and contingencies (Note 11)			
Members' Equity			
Capital stock and participation certificates	**942**	882	900
Retained earnings			
Allocated	**21,637**	22,907	24,588
Unallocated	**91,532**	85,772	77,821
Accumulated other comprehensive income (loss)	**(664)**	(461)	(570)
Total members' equity	**113,447**	109,100	102,739
Total liabilities and members' equity	**$ 590,424**	$ 563,348	$ 561,814

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Interest Income			
Loans	**$ 28,798**	$ 27,177	$ 22,240
Investments	**187**	231	393
Total interest income	**28,985**	27,408	22,633
Interest Expense			
Notes payable to AgFirst Farm Credit Bank	**14,248**	13,425	10,374
Net interest income	**14,737**	13,983	12,259
Provision for (reversal of allowance for) loan losses	**(424)**	(1,775)	(678)
Net interest income after provision for (reversal of allowance for) loan losses	**15,161**	15,758	12,937
Noninterest Income			
Loan fees	**482**	584	721
Fees for financially related services	**1,034**	591	576
Patronage refunds from other Farm Credit institutions	**6,744**	7,894	8,205
Gains (losses) on sales of rural home loans, net	**353**	325	253
Gains (losses) on sales of premises and equipment, net	**16**	—	—
Gains (losses) on other transactions	**72**	(11)	71
Insurance Fund refunds	**116**	272	—
Other noninterest income	**5**	2	2
Total noninterest income	**8,822**	9,657	9,828
Noninterest Expense			
Salaries and employee benefits	**7,867**	7,586	7,206
Occupancy and equipment	**735**	678	647
Insurance Fund premiums	**379**	373	570
(Gains) losses on other property owned, net	**1**	—	66
Other operating expenses	**2,718**	2,627	2,021
Total noninterest expense	**11,700**	11,264	10,510
Net income	**$ 12,283**	$ 14,151	$ 12,255

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Net income	**$ 12,283**	$ 14,151	$ 12,255
Other comprehensive income net of tax			
Employee benefit plans adjustments	**(203)**	109	(71)
Comprehensive income	**$ 12,080**	$ 14,260	$ 12,184

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Members' Equity

(dollars in thousands)	Capital Stock and Participation Certificates	Retained Earnings Allocated	Retained Earnings Unallocated	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2016	$ 861	$ 26,269	$ 70,166	$ (499)	$ 96,797
Comprehensive income			12,255	(71)	12,184
Capital stock/participation certificates issued/(retired), net	39				39
Patronage distribution					
Cash			(4,600)		(4,600)
Retained earnings retired		(1,681)			(1,681)
Balance at December 31, 2017	$ 900	$ 24,588	$ 77,821	$ (570)	$ 102,739
Comprehensive income			14,151	109	14,260
Capital stock/participation certificates issued/(retired), net	(18)				(18)
Patronage distribution					
Cash			(6,200)		(6,200)
Retained earnings retired		(1,681)			(1,681)
Balance at December 31, 2018	$ 882	$ 22,907	$ 85,772	$ (461)	$ 109,100
Cumulative effect of change in accounting principle			**(23)**		**(23)**
Comprehensive income			**12,283**	**(203)**	**12,080**
Capital stock/participation certificates issued/(retired), net	**60**				**60**
Patronage distribution					
Cash			**(6,500)**		**(6,500)**
Retained earnings retired		**(1,270)**			**(1,270)**
Balance at December 31, 2019	**$ 942**	**$ 21,637**	**$ 91,532**	**$ (664)**	**$ 113,447**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

(dollars in thousands)	For the year ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	**$ 12,283**	$ 14,151	$ 12,255
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation on premises and equipment	**219**	195	167
Amortization (accretion) of net deferred loan costs (fees)	**(129)**	(145)	10
Premium amortization (discount accretion) on investments in debt securities	**165**	274	311
Provision for (reversal of allowance for) loan losses	**(424)**	(1,775)	(678)
(Gains) losses on other property owned	**(1)**	—	63
(Gains) losses on sales of premises and equipment, net	**(16)**	—	—
(Gains) losses on sales of rural home loans, net	**(353)**	(325)	(253)
(Gains) losses on other transactions	**(72)**	11	(71)
Changes in operating assets and liabilities:			
Origination of loans held for sale	**(16,932)**	(16,777)	(11,276)
Proceeds from sales of loans held for sale, net	**17,285**	17,778	11,192
(Increase) decrease in accrued interest receivable	**18**	(449)	(65)
(Increase) decrease in accounts receivable	**1,071**	896	(1,220)
(Increase) decrease in other assets	**(476)**	(101)	2,495
Increase (decrease) in accrued interest payable	**(46)**	191	259
Increase (decrease) in accounts payable	**(868)**	(189)	74
Increase (decrease) in other liabilities	**2,108**	(5,161)	2,416
Total adjustments	**1,549**	(5,577)	3,424
Net cash provided by (used in) operating activities	**13,832**	8,574	15,679
Cash flows from investing activities:			
Proceeds from maturities of or principal payments received on investments in debt securities, held to maturity	**2,486**	4,842	5,668
Net (increase) decrease in loans	**(29,072)**	(4,475)	(24,587)
(Increase) decrease in equity investments in other Farm Credit institutions	**(109)**	(250)	163
Purchases of premises and equipment	**(1,062)**	(1,086)	(245)
Proceeds from sales of premises and equipment	**23**	—	—
Proceeds from sales of other property owned	**33**	—	81
Net cash provided by (used in) investing activities	**(27,701)**	(969)	(18,920)
Cash flows from financing activities:			
Advances on (repayment of) notes payable to AgFirst Farm Credit Bank, net	**21,065**	(1,050)	8,106
Capital stock and participation certificates issued/(retired), net	**60**	(18)	39
Patronage refunds and dividends paid	**(6,161)**	(4,720)	(4,257)
Retained earnings retired	**(1,270)**	(1,681)	(1,681)
Net cash provided by (used in) financing activities	**13,694**	(7,469)	2,207
Net increase (decrease) in cash	**(175)**	136	(1,034)
Cash, beginning of period	**189**	53	1,087
Cash, end of period	**$ 14**	$ 189	$ 53
Supplemental schedule of non-cash activities:			
Financed sales of other property owned	**$ —**	$ —	$ 72
Receipt of property in settlement of loans	**32**	—	—
Estimated cash dividends or patronage distributions declared or payable	**6,500**	6,200	4,600
Employee benefit plans adjustments (Note 9)	**203**	(109)	71
Supplemental information:			
Interest paid	**$ 14,294**	$ 13,234	$ 10,115

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(dollars in thousands, except as noted)

Note 1 — Organization and Operations

A. **Organization:** Farm Credit of Central Florida, ACA (the Association or ACA) is a member-owned cooperative that provides credit and credit-related services to qualified borrowers in the counties of Brevard, Citrus, Hernando, Hillsborough, Lake, Orange, Osceola, Pasco, Pinellas, Polk, Seminole, Sumter, and Volusia in the state of Florida.

The Association is a lending institution in the Farm Credit System (System), a nationwide network of cooperatively owned banks and associations. It was established by Acts of Congress and is subject to the provisions of the Farm Credit Act of 1971, as amended (Farm Credit Act). The System specializes in providing financing and related services to qualified borrowers for agricultural and rural purposes.

The nation is served by three Farm Credit Banks (FCBs) and one Agricultural Credit Bank (ACB), (collectively, the System Banks) each of which has specific lending authorities within its chartered territory. The ACB also has additional specific nationwide lending authorities.

Each System Bank serves one or more Agricultural Credit Associations (ACAs) that originate long-term, short-term and intermediate-term loans, Production Credit Associations (PCAs) that originate and service short- and intermediate-term loans, and/or Federal Land Credit Associations (FLCAs) that originate and service long-term real estate mortgage loans. These associations borrow a majority of the funds for their lending activities from their related bank. System Banks are also responsible for supervising the activities of associations within their districts. AgFirst (Bank) and its related associations (Associations or District Associations) are collectively referred to as the AgFirst District. The District Associations jointly own substantially all of AgFirst's voting stock. As of year-end, the District consisted of the Bank and nineteen District Associations. All nineteen were structured as ACA holding companies, with PCA and FLCA subsidiaries. FLCAs are tax-exempt while ACAs and PCAs are taxable.

The Farm Credit Administration (FCA) is delegated authority by Congress to regulate the System banks and associations. The FCA examines the activities of the associations and certain actions by the associations are subject to the prior approval of the FCA and the supervising bank.

The Farm Credit Act also established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Fund is required to be used (1) to ensure the timely payment of principal and interest on Systemwide debt obligations (Insured Debt), (2) to ensure the retirement of protected borrower capital at par or stated value, and (3) for other specified purposes. The Insurance Fund is also available for discretionary uses by the Insurance Corporation to provide assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. Each System bank has been required to pay premiums, which may be passed on to the Association, into the Insurance Fund, based on its average adjusted outstanding Insured Debt until the assets in the Insurance Fund reach the "secure base amount." The secure base amount is defined in the Farm Credit Act as 2.0 percent of the aggregate insured obligations (adjusted to reflect the reduced risk on loans or investments guaranteed by federal or state governments) or such other percentage of the aggregate obligations as the Insurance Corporation at its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the secure base amount, the Insurance Corporation is required to reduce premiums and may return excess funds above the secure base amount to System institutions. However, it must still ensure that reduced premiums are sufficient to maintain the level of the Insurance Fund at the secure base amount.

B. **Operations:** The Farm Credit Act sets forth the types of authorized lending activity and financial services that can be offered by the Association, and the persons eligible to borrow.

The Associations borrow from the Bank and in turn may originate and service short- and intermediate-term loans to their members, as well as long-term real estate mortgage loans.

The Bank primarily lends to the District Associations in the form of a line of credit to fund the Associations' earning assets. These lines of credit (or Direct Notes) are collateralized by a pledge of substantially all of each Association's assets. The terms of the Direct Notes are governed by a General Financing Agreement (GFA) between the Bank and Association. Each advance is structured such that the principal cash flow, repricing characteristics, and underlying index (if any) of the advance match those of the assets being funded. By match-funding the Association loans, the Associations' exposure to interest rate risk is minimized.

In addition to providing funding for earning assets, the Bank provides District Associations with banking and support services such as accounting, human resources, information systems, and marketing. The costs of these support services are included in the cost of the Direct Note, or in some cases billed directly to certain Associations that use a specific service.

The Association is authorized to provide, either directly or in participation with other lenders, credit, credit commitments, and related services to eligible borrowers. Eligible borrowers include farmers, ranchers, producers or

harvesters of aquatic products, rural residents, and farm-related businesses.

The Association may sell to any System borrowing member, on an optional basis, credit or term life insurance appropriate to protect the loan commitment in the event of death of the debtor(s). The sale of other insurance necessary to protect a member's farm or aquatic unit is permitted, but limited to hail and multi-peril crop insurance, and insurance necessary to protect the facilities and equipment of aquatic borrowers.

Note 2 — Summary of Significant Accounting Policies

The accounting and reporting policies of the Association conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the banking industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Significant estimates are discussed in these footnotes, as applicable. Actual results may differ from these estimates.

The accompanying consolidated financial statements include the accounts of the ACA, PCA and FLCA.

Certain amounts in the prior year financial statements may have been reclassified to conform to the current period presentation. Such reclassifications had no effect on net income or total members' equity of prior years.

A. **Cash:** Cash represents cash on hand and on deposit at banks. At the most recent year-end, the Association held no cash in excess of insured amounts.

B. **Loans and Allowance for Loan Losses:** The Association is authorized to make long-term real estate loans with maturities of 5 to 40 years and certain short- and intermediate-term loans for agricultural production or operating purposes with maturities of not more than 10 years.

Loans are carried at their principal amount outstanding adjusted for charge-offs, premiums, discounts, deferred loan fees or costs, and derivative instruments and hedging valuation adjustments, if any. Interest on loans is accrued and credited to interest income based upon the daily principal amount outstanding. The difference in the total investment in a loan and its principal amount may be deferred as part of the carrying amount of the loan and the net difference amortized over the life of the related loan as an adjustment to interest income using the effective interest method.

Impaired loans are loans for which it is probable that all principal and interest will not be collected according to the contractual terms of the loan and are generally considered substandard or doubtful, which is in accordance with the loan rating model, as described below. Impaired loans include nonaccrual loans, restructured loans, and loans past due 90 days or more and still accruing interest. A loan is considered contractually past due when any principal repayment or interest payment required by the loan instrument is not received on or before the due date. A loan remains contractually past due until the entire amount past due, including principal, accrued interest, and penalty interest incurred as the result of past due status, is collected or otherwise discharged in full. A formal restructuring may also cure a past due status.

Loans are generally classified as nonaccrual when principal or interest is delinquent for 90 days (unless adequately collateralized and in the process of collection) or circumstances indicate that collection of principal and/or interest is in doubt. When a loan is placed in nonaccrual status, accrued interest deemed uncollectible is reversed (if accrued in the current year) or charged against the allowance for loan losses (if accrued in the prior year).

When loans are in nonaccrual status, payments are applied against the recorded investment in the loan asset. If collection of the recorded investment in the loan is fully expected and the loan does not have a remaining unrecovered prior charge-off associated with it, the interest portion of payments received in cash may be recognized as interest income. Nonaccrual loans may be returned to accrual status when principal and interest are current, prior charge-offs have been recovered, the ability of the borrower to fulfill the contractual repayment terms is fully expected, and the loan is not classified "doubtful" or "loss." Loans are charged off at the time they are determined to be uncollectible.

In cases where the Association makes certain monetary concessions to the borrower through modifications to the contractual terms of the loan, the loan is classified as a restructured loan. A restructured loan constitutes a troubled debt restructuring (TDR) if for economic or legal reasons related to the debtor's financial difficulties the Association grants a concession to the debtor that it would not otherwise consider. If the borrower's ability to meet the revised payment schedule is uncertain, the loan is classified as a nonaccrual loan.

The allowance for loan losses is maintained at a level considered adequate by management to provide for probable and estimable losses inherent in the loan portfolio as of the report date. The allowance for loan losses is increased through provisions for loan losses and loan recoveries and is decreased through loan charge-offs and allowance reversals. A review of individual loans in each respective portfolio is performed periodically to determine the appropriateness of risk ratings and to ensure loss exposure to the Association has been identified. The allowance for loan losses is a valuation account used to reasonably estimate loan losses as of the financial statement date. Determining the appropriate allowance for loan losses balance involves significant judgment about when a loss has been incurred and the amount of that loss.

The Association considers the following factors, among others, when determining the allowance for loan losses:

- Changes in credit risk classifications
- Changes in collateral values

- Changes in risk concentrations
- Changes in weather-related conditions
- Changes in economic conditions

A specific allowance may be established for impaired loans under Financial Accounting Standards Board (FASB) guidance on accounting by creditors for impairment of a loan. Impairment of these loans is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as practically expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent.

A general allowance may also be established under FASB guidance on accounting for contingencies, to reflect estimated probable credit losses inherent in the remainder of the loan portfolio which excludes impaired loans considered under the specific allowance discussed above. A general allowance can be evaluated on a pool basis for those loans with similar characteristics. The level of the general allowance may be based on management's best estimate of the likelihood of default adjusted for other relevant factors reflecting the current environment.

The credit risk rating methodology is a key component of the Association's allowance for loan losses evaluation, and is generally incorporated into the institution's loan underwriting standards and internal lending limit. The Association uses a two-dimensional loan rating model based on internally generated combined system risk rating guidance that incorporates a 14-point risk rating scale to identify and track the probability of borrower default and a separate scale addressing loss given default over a period of time. Probability of default is the probability that a borrower will experience a default within 12 months from the date of the determination of the risk rating. A default is considered to have occurred if the lender believes the borrower will not be able to pay its obligation in full or the borrower is past due more than 90 days. The loss given default is management's estimate as to the anticipated economic loss on a specific loan assuming default has occurred or is expected to occur within the next 12 months.

Each of the ratings carries a distinct percentage of default probability. The 14-point risk rating scale provides for granularity of the probability of default, especially in the acceptable ratings. There are nine acceptable categories that range from a borrower of the highest quality to a borrower of minimally acceptable quality. The probability of default between 1 and 9 is very narrow and would reflect almost no default to a minimal default percentage. The probability of default grows significantly as a loan moves from a 9 to 10 (other assets especially mentioned) and grows more significantly as a loan moves to a substandard viable level of 11. A substandard non-viable rating of 12 indicates that the probability of default is almost certain. Loans risk rated 13 or 14 are generally written off.

C. **Loans Held for Sale:** Loans are classified as held for sale when there is intent to sell the loans within a reasonable period of time. Loans intended for sale are carried at the lower of cost or fair value.

D. **Other Property Owned (OPO):** Other property owned, consisting of real estate, personal property, and other assets acquired through a collection action, is recorded upon acquisition at fair value less estimated selling costs. Any initial reduction in the carrying amount of a loan to the fair value of the collateral received is charged to the allowance for loan losses. Revised estimates to the fair value less cost to sell are reported as adjustments to the carrying amount of the asset, provided that such adjusted value is not in excess of the carrying amount at acquisition. Income, expenses, and carrying value adjustments related to other property owned are included in Gains (Losses) on Other Property Owned, Net in the Consolidated Statements of Income.

E. **Premises and Equipment:** Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets. Gains and losses on dispositions are reflected in current earnings. Maintenance and repairs are charged to expense and improvements are capitalized. Premises and equipment are evaluated for impairment whenever events or circumstances indicate that the carrying value of the asset may not be recoverable.

From time to time, assets classified as premises and equipment are transferred to held for sale for various reasons. These assets are carried in Other Assets at the lower of the recorded investment in the asset or fair value less estimated cost to sell based upon the property's appraised value at the date of transfer. Any write-down of property held for sale is recorded as a loss in the period identified.

F. **Investments:** The Association may hold investments as described below.

Equity Investments in Other Farm Credit System Institutions

Investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

Investments in Debt Securities

The Association holds certain investment securities, as permitted under the FCA regulations. These investments are classified based on management's intention on the date of purchase and are generally recorded in the Consolidated Balance Sheets as securities on the trade date.

Securities for which the Association has the intent and ability to hold to maturity are classified as held-to-maturity (HTM) and carried at amortized cost. Investment securities classified as available-for-sale (AFS) are carried at fair value with net unrealized gains and losses included as a component of Other Comprehensive Income (OCI). Purchase premiums and discounts are amortized or accreted ratably over the term of the respective security using the interest method. The amortization of premiums on certain

purchased callable debt securities that have explicit, noncontingent call features and that are callable at fixed prices on preset dates are amortized to the earliest call date.

Other Equity Investments
Any equity securities with a readily determinable fair value are carried at fair value with unrealized gains and losses included in earnings. Equity securities without a readily determinable fair value are carried at cost less any impairment.

Other Investments
As discussed in Note 8, certain investments, consisting primarily of mutual funds, are held in trust and investment accounts and are reported at fair value. Holding period gains and losses are included within Noninterest Income on the Consolidated Statements of Income and the balance of these investments is included in Other Assets on the accompanying Consolidated Balance Sheets.

Impairment
The Association reviews all investments that are in a loss position in order to determine whether the unrealized loss, which is considered an impairment, is temporary or other-than-temporary. As mentioned above, changes in the fair value of AFS investments are reflected in OCI, unless the investment is deemed to be other-than-temporarily impaired (OTTI). Impairment is considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a *credit loss*). If the Association intends to sell an impaired debt security or is more likely than not to be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but the Association does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and is separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is charged to current earnings, with the remainder of the loss amount recognized in OCI.

In subsequent periods, if the present value of cash flows expected to be collected is less than the amortized cost basis, the Association will record additional OTTI and adjust the yield of the security prospectively. The amount of total OTTI for an AFS security that previously was impaired is determined as the difference between its carrying amount prior to the determination of OTTI and its fair value.

Investment Income
Interest on investment securities, including amortization of premiums and accretion of discounts, is included in Interest Income. Realized gains and losses from the sales of investment securities are recognized in current earnings using the specific identification method.

Dividends from Investments in Other Farm Credit Institutions are generally recorded as patronage income and included in Noninterest Income.

G. **Voluntary Advance Conditional Payments:** The Association is authorized under the Farm Credit Act to accept advance payments from borrowers. To the extent the borrower's access to such advance payments is restricted, the advanced conditional payments are netted against the borrower's related loan balance. Amounts in excess of the related loan balance and amounts to which the borrower has unrestricted access are presented as other liabilities in the accompanying Consolidated Balance Sheets. Advanced conditional payments are not insured. Interest is generally paid by the Association on such accounts.

H. **Employee Benefit Plans:** The Association participates in District and multi-district sponsored benefit plans. These plans may include defined benefit final average pay retirement, defined benefit cash balance retirement, defined benefit other postretirement benefits, and defined contribution plans.

Defined Contribution Plans
Substantially all employees are eligible to participate in the defined contribution Farm Credit Benefit Alliance (FCBA) 401(k) Plan, subsequently referred to as the 401(k) Plan, which qualifies as a 401(k) plan as defined by the Internal Revenue Code. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. Company contributions to the 401(k) Plan are expensed as funded.

The Association also offers a FCBA supplemental 401(k) plan for certain key employees. This plan is nonqualified. Company contributions are expensed as funded.

Additional information may be found in Note 9.

Multiemployer Defined Benefit Plans
Substantially all employees hired before January 1, 2003 may participate in the AgFirst Farm Credit Retirement Plan (Plan), which is a defined benefit plan and considered multiemployer under FASB accounting guidance. The Plan is noncontributory and includes eligible Association and District employees. The "Projected Unit Credit" actuarial method is used for financial reporting purposes.

In addition to pension benefits, the Association provides certain health care and life insurance benefits for retired employees (other postretirement benefits) through a multi-district sponsored retiree healthcare plan. Substantially all employees are eligible for those benefits when they reach early retirement age while working for the Association. Authoritative accounting guidance requires the accrual of the expected cost of providing these benefits to an employee, their beneficiaries and covered dependents during the years the employee renders service necessary to become eligible for benefits.

Since the foregoing plans are multiemployer, the Association does not apply the provisions of FASB guidance on employers' accounting for defined benefit

pension and other postretirement plans in its stand-alone financial statements. Rather, the effects of this guidance are reflected in the Annual Information Statement of the Farm Credit System.

Additional information may be found in Note 9 and in the Notes to the Annual Information Statement of the Farm Credit System.

Single Employer Defined Benefit Plan
The Association also sponsors a single employer defined benefit supplemental retirement plan for certain key employees. This plan is nonqualified; therefore, the associated liabilities are included in the Association's Consolidated Balance Sheets in Other Liabilities.

The foregoing defined benefit plan is considered single employer, therefore the Association applies the provisions of FASB guidance on employers' accounting for defined benefit pension and other postretirement plans in its stand-alone financial statements. See Note 9 for additional information.

I. **Income Taxes:** The Association evaluates tax positions taken in previous and current years according to FASB guidance. A tax position can result in a permanent reduction of income taxes payable, a deferral of income taxes otherwise currently payable to future years, or a change in the expected realizability of deferred tax assets. The term tax position also encompasses, but is not limited to, an entity's status, including its status as a pass-through entity or tax-exempt entity.

The Association is generally subject to Federal and certain other income taxes. As previously described, the ACA holding company has two wholly-owned subsidiaries, a PCA and a FLCA. The FLCA subsidiary is exempt from federal and state income taxes as provided in the Farm Credit Act. The ACA holding company and the PCA subsidiary are subject to federal, state and certain other income taxes.

The Association is eligible to operate as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, the Association can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage refunds. The Association distributes patronage on the basis of book income.

The Association accounts for income taxes under the asset and liability method, recognizing deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

The Association records a valuation allowance at the balance sheet dates against that portion of the Association's deferred tax assets that, based on management's best estimates of future events and circumstances, more likely than not (a likelihood of more than 50 percent) will not be realized. The consideration of valuation allowances involves various estimates and assumptions as to future taxable earnings, including the effects of the expected patronage program, which reduces taxable earnings.

J. **Due from AgFirst Farm Credit Bank:** The Association records patronage refunds from the Bank and certain District Associations on an accrual basis.

K. **Valuation Methodologies:** FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability. This guidance also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It prescribes three levels of inputs that may be used to measure fair value.

Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability.

Level 3 inputs to the valuation methodology are unobservable and supported by little or no market activity. Valuation is determined using pricing models, discounted cash flow methodologies, or similar techniques, and could include significant management judgment or estimation. Level 3 assets and liabilities also could include instruments whose price has been adjusted based on dealer quoted pricing that is different than a third-party valuation or internal model pricing.

The Association may use the Bank, internal resources or third parties to obtain fair value prices. Quoted market prices are generally used when estimating fair values of any assets or liabilities for which observable, active markets exist.

A number of methodologies may be employed to value items for which an observable active market does not exist. Examples of these items include: impaired loans, other property owned, and certain derivatives, investment securities and other financial instruments. Inputs to these valuations can involve estimates and assumptions that require a substantial degree of judgment. Some of the assumptions used include, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, costs of servicing, and liquidation values. The use of different assumptions could produce significantly different asset or liability values, which could have material positive or negative effects on results of operations.

Additional information may be found in Note 8.

L. **Off-Balance-Sheet Credit Exposures:** The credit risk associated with commitments to extend credit and letters of credit is essentially the same as that involved with extending loans to customers and is subject to normal credit policies. Collateral may be obtained based on management's assessment of the customer's creditworthiness.

Commitments to extend credit are agreements to lend to customers, generally having fixed expiration dates or other termination clauses that may require payment of a fee.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These letters of credit are issued to facilitate commerce and typically result in the commitment being funded when the underlying transaction is consummated between the customer and third party.

M. **Revenue Recognition:** The Association generates income from multiple sources.

Financial Instruments
The largest source of revenue for the Association is interest income. Interest income is recognized on an accrual basis driven by nondiscretionary formulas based on written contracts, such as loan agreements or securities contracts. Credit-related fees, including letter of credit fees, finance charges and other fees are recognized in Noninterest Income when earned. Other types of noninterest revenues, such as service charges, professional services and broker fees, are accrued and recognized into income as services are provided and the amount of fees earned is reasonably determinable.

Contracts with Customers
The Association maintains contracts with customers to provide support services in various areas such as accounting, lending transactions, consulting, insurance, and information technology. As most of the contracts are to provide access to expertise or system capacity that the Association maintains, there are no material incremental costs to fulfill these contracts that should be capitalized. The Association also does not generally incur costs to obtain contracts. Revenue is recognized to reflect the transfer of goods and services to customers in an amount equal to the consideration the Association receives or expects to receive.

Gains and Losses from Nonfinancial Assets
Any gains or losses on sales of Premises and Equipment and OPO are included as part of Noninterest Income. These gains and losses are recognized, and the nonfinancial asset is derecognized, when the Association has entered into a valid contract with a noncustomer and transferred control of the asset. If the criteria to meet the definition of a contract have not been met, the Association does not derecognize the nonfinancial asset and any consideration received is recognized as a liability. If the criteria for a contract are subsequently met, or if the consideration received is or becomes nonrefundable, a gain or loss may be recognized at that time.

N. **Leases:**
Lessee
Contracts entered into are evaluated at inception to determine if they contain a lease. Assets and liabilities are recognized on the Consolidated Balance Sheets to reflect the rights and obligations created by any contracts that do. These contracts are then classified as either operating or finance leases.

In the course of normal operations, the Association may enter into leases for various business purposes. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement. Any options are assessed individually to determine if it is reasonably certain they will be exercised.

Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make the payments arising from the lease. ROU assets and lease liabilities are initially recognized based on the present value of lease payments over the lease term. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Lease expense for finance leases is recognized on a declining basis over the lease term.

ROU assets are included on the Consolidated Balance Sheets in Premises and Equipment for finance leases and Other Assets for operating leases. Lease liabilities are included in Other Liabilities on the Consolidated Balance Sheets. Leases with an initial term of 12 months or less are not recorded on the Consolidated Balance Sheets and lease expense is recognized over the lease term.

Lessor
The Association may act as lessor in certain contractual arrangements which relate to office space in an owned property and are considered operating leases. Generally, leases are for terms of three to five years and may include options to extend or terminate the arrangement.

Lease income is recognized on a straight-line basis over the lease term. Lease and nonlease components are accounted for separately in the Consolidated Statements of Income. Any initial direct costs are deferred and recognized as an expense over the lease term on the same basis as lease income. Any taxes assessed by a governmental authority are excluded from consideration as variable payments.

Lease receivables and income are included in Accounts Receivable on the Consolidated Balance Sheets and Lease Income in the Consolidated Statements of Income.

O. **Accounting Standards Updates (ASUs):** In January 2020, the FASB issued ASU 2020-01 Investments—Equity Securities (Topic 321), Investments—Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815): Clarifying the Interactions between Topic 321, Topic 323, and Topic 815. The amendments clarify certain interactions between the guidance on accounting for certain equity securities under Topic 321, the guidance on accounting for investments under the equity method in Topic 323, and the guidance in Topic 815. The Update could change how an entity accounts for an equity security

under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments are intended to improve current GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted, including early adoption in an interim period. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In December 2019, the FASB issued ASU 2019-12 Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments simplify the accounting for income taxes by removing the following exceptions:

- Exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income),
- Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment,
- Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary, and
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

The amendments also simplify the accounting for income taxes by doing the following:

- Requiring that an entity recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax,
- Requiring that an entity evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction,
- Specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the taxing authority,
- Requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date, and
- Making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method.

For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In November 2019, the FASB issued ASU 2019-10 Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842). On the basis of feedback obtained from outreach with stakeholders and monitoring of implementation, the Board has gained a greater understanding about the implementation challenges encountered by all types of entities when adopting a major Update. The challenges are often magnified for private companies, smaller public companies, and not-for-profit organizations. In response to those issues and requests to defer certain major Updates not yet effective for all entities, the Board developed a philosophy to extend and simplify how effective dates are staggered between larger public companies (bucket one) and all other entities (bucket two). Credit Losses guidance in ASU 2016-13 will be effective for all bucket two entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

In May 2019, the FASB issued ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. The amendments in this Update provide entities with an option to irrevocably elect the fair value option applied on an instrument-by-instrument basis for certain financial assets upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. For entities that have not yet adopted the amendments in ASU 2016-13, the effective date and transition methodology for the amendments in this Update are the same as in that update. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In April 2019, the FASB issued ASU 2019-04 Codification Improvements to Topic 326 Financial Instruments—Credit Losses, Topic 815 Derivatives and Hedging, and Topic 825 Financial Instruments. The amendments in this Update clarify, correct, and improve various aspects of the guidance in the following Updates related to financial instruments: ASU 2016-01 Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities, ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The items addressed generally are not expected to have a significant effect on current accounting practice or to create a significant administrative cost for most entities. For

entities that have not yet adopted the amendments in ASU 2016-13, the effective dates and transition requirements for the amendments related to this Update are the same as the effective dates and transition requirements in ASU 2016-13. The transition adjustment includes adjustments made as a result of an entity developing or amending its accounting policy upon adoption of the amendments in this Update for determining when accrued interest receivables are deemed uncollectible and written off. For entities that have adopted the amendments in ASU 2017-12 as of the issuance date of this Update, the effective date is as of the beginning of the first annual period beginning after the issuance date of this Update. For those entities, early adoption is permitted, including adoption on any date on or after the issuance of this Update. The amendments in this Update related to ASU 2016-01 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in any interim period following the issuance of this Update as long as the entity has adopted all of the amendments in ASU 2016-01. The amendments in this Update should be applied on a modified-retrospective transition basis by means of a cumulative-effect adjustment to the opening retained earnings balance in the statement of financial position as of the date an entity adopted all of the amendments in ASU 2016-01. Adoption of the guidance related to ASU 2016-01 and ASU 2017-12 is not expected to have an impact on the statements of financial condition or results of operations. Evaluation of any possible effects the ASU 2016-13 guidance may have on the statements of financial condition and results of operations is in progress.

In August 2018, the FASB issued ASU 2018-15 Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this Update. The guidance is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for all entities. The amendments should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The guidance will be adopted on a prospective basis in 2020 and is not expected to have a material impact on the statements of financial condition or results of operations.

In August 2018, the FASB issued ASU 2018-13 Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments are part of the FASB's disclosure framework project. The project's objective and primary focus are to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments remove, modify or add certain disclosures contained in the financial statement footnotes related to fair value. Additionally, the guidance is intended to promote the appropriate exercise of discretion by entities when considering fair value measurement disclosures and to clarify that materiality is an appropriate consideration of entities and their auditors when evaluating disclosure requirements. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Certain amendments should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance. Entities are permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The removed disclosures were adopted effective with the 2018 Annual Report, and the remaining disclosures were adopted with the 2019 Annual Report.

In February 2018, the FASB issued ASU 2018-02 Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and are intended to improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The Update also requires certain disclosures about stranded tax effects. The guidance was effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

In March 2017, the FASB issued ASU 2017-08 Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The guidance relates to certain callable debt securities and shortens the amortization period for any premium to the earliest call date. The Update was effective for interim and annual periods beginning after December 15, 2018 for public business entities. Adoption of this guidance had no impact on the statements of financial condition and results of operations.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This Update, and subsequent clarifying guidance issued, is intended to improve financial reporting by requiring timelier recording of credit losses on financial instruments. It requires an organization to measure all expected credit losses for financial assets held at the reporting date. Financial

institutions and other organizations will use forward-looking information to estimate their credit losses. Additionally, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. For public companies that are not SEC filers, it will take effect for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2018. Evaluation of any possible effects the guidance may have on the statements of financial condition and results of operations is in progress.

In February 2016, the FASB issued ASU 2016-02 Leases (Topic 842). This Update, and subsequent clarifying guidance issued, requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Leases are classified as either finance leases or operating leases. This distinction is relevant for the pattern of expense recognition in the income statement. Lessor accounting guidance is largely unchanged from the previous standard. The Update also eliminates leveraged lease accounting but allows existing leveraged leases to continue their current accounting until maturity, termination or modification. The amendments were effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, for public business entities.

Transition Information

- The guidance was adopted using the optional modified retrospective method and practical expedients for transition. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.
- The package of practical expedients related to initial application of the guidance was elected, which allowed existing leases to be largely accounted for consistent with current guidance, except for the incremental balance sheet recognition for lessees.
- There will not be a material change to the timing of future expense recognition.
- Upon adoption, a cumulative-effect adjustment to equity of approximately $(23) was recorded. In addition, a Right of Use Asset in the amount of $784 and Lease Liability in the amount of $807 were recognized.
- Given the limited changes to lessor accounting, there were no material changes to recognition or measurement.

Note 3 — Loans and Allowance for Loan Losses

For a description of the Association's accounting for loans, including impaired loans, and the allowance for loan losses, see Note 2 subsection B above.

Credit risk arises from the potential inability of an obligor to meet its repayment obligation which exists in outstanding loans. The Association manages credit risk associated with lending activities through an assessment of the credit risk profile of an individual obligor. The Association sets its own underwriting standards and lending policies that provide direction to loan officers and are approved by the Board of Directors.

The credit risk management process begins with an analysis of the obligor's credit history, repayment capacity and financial position. Repayment capacity focuses on the obligor's ability to repay the obligation based on cash flows from operations or other sources of income, including non-farm income. Real estate mortgage loans must be secured by first liens on the real estate collateral. As required by FCA regulations, each institution that makes loans on a secured basis must have collateral evaluation policies and procedures.

The credit risk rating process for loans uses a two-dimensional structure, incorporating a 14-point probability of default scale (see further discussion in Note 2 subsection B above) and a separate scale addressing estimated percentage loss in the event of default. The loan rating structure incorporates borrower risk and transaction risk. Borrower risk is the risk of loss driven by factors intrinsic to the borrower. The transaction risk or facility risk is related to the structure of a credit (tenor, terms, and collateral).

The Association's loan portfolio, which includes purchased interests in loans, has been segmented by the following loan types as defined by the FCA:

- Real estate mortgage loans — loans made to full-time or part-time farmers secured by first lien real estate mortgages with maturities from five to thirty years. These loans may be made only in amounts up to 85 percent of the appraised value of the property taken as security or up to 97 percent of the appraised value if guaranteed by a federal, state, or other governmental agency. The actual percentage of loan-to-appraised value when loans are made is generally lower than the statutory required percentage.
- Production and intermediate-term loans — loans to full-time or part-time farmers that are not real estate mortgage loans. These loans fund eligible financing needs including operating inputs (such as labor, feed, fertilizer, and repairs), livestock, living expenses, income taxes, machinery or equipment, farm buildings, and other business-related expenses. Production loans may be made on a secured or unsecured basis and are most often made for a period of time that matches the borrower's normal production and marketing cycle, which is typically one year or less. Intermediate-term loans are made for a specific term, generally greater than one year and less than or equal to ten years.
- Loans to cooperatives — loans for any cooperative purpose other than for communication, power, and water and waste disposal.
- Processing and marketing loans — loans for operations to process or market the products produced by a farmer, rancher, or producer or harvester of aquatic products, or by a cooperative.
- Farm-related business loans — loans to eligible borrowers that furnish certain farm-related business services to

farmers or ranchers that are directly related to their agricultural production.

- Rural residential real estate loans — loans made to individuals, who are not farmers, to purchase a single-family dwelling that will be the primary residence in open country, which may include a town or village that has a population of not more than 2,500 persons. In addition, the loan may be to remodel, improve, or repair a rural home, or to refinance existing debt. These loans are generally secured by a first lien on the property.
- Communication loans — loans primarily to finance rural communication providers.
- Power loans — loans primarily to finance electric generation, transmission and distribution systems serving rural areas.
- Water and waste disposal loans — loans primarily to finance water and waste disposal systems serving rural areas.
- International loans — primarily loans or credit enhancements to other banks to support the export of U.S. agricultural commodities or supplies. The federal government guarantees a substantial portion of these loans.
- Lease receivables — the net investment for all finance leases such as direct financing leases, leveraged leases, and sales-type leases.
- Other (including Mission Related) — additional investments in rural America approved by the FCA on a program or a case-by-case basis. Examples of such investments include partnerships with agricultural and rural community lenders, investments in rural economic development and infrastructure, and investments in obligations and mortgage securities that increase the availability of affordable housing in rural America.

A summary of loans outstanding at period end follows:

	December 31, 2019	2018	2017
Real estate mortgage	$ 313,117	$ 298,982	$ 276,252
Production and intermediate-term	156,828	143,163	153,523
Loans to cooperatives	2,488	3,359	1,378
Processing and marketing	60,146	54,447	56,244
Farm-related business	6,609	6,330	8,171
Communication	11,450	14,938	19,940
Power and water/waste disposal	3,105	3,738	3,831
Rural residential real estate	8,257	8,206	8,348
International	6,435	5,836	5,832
Total loans	$ 568,435	$ 538,999	$ 533,519

A substantial portion of the Association's lending activities is collateralized and the Association's exposure to credit loss associated with lending activities is reduced accordingly.

The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but typically includes farmland and income-producing property, such as crops and livestock, as well as receivables. Long-term real estate loans are collateralized by the first liens on the underlying real property. Federal regulations state that long-term real estate loans are not to exceed 85 percent (97 percent if guaranteed by a government agency) of the property's appraised value. However, a decline in a property's market value subsequent to loan origination or advances, or other actions necessary to protect the financial interest of the Association in the collateral, may result in loan to value ratios in excess of the regulatory maximum.

The Association may purchase or sell participation interests with other parties in order to diversify risk, manage loan volume, and comply with FCA regulations. During 2017, the Association cancelled its participation in the Capitalized Participation Pool program with the Bank. As a result, the Association purchased $7,449 of participations previously sold to AgFirst. The following tables present the principal balance of participation loans at periods ended:

December 31, 2019	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 22,842	$ 49,790	$ –	$ 33,372	$ –	$ –	$ 22,842	$ 83,162
Production and intermediate-term	24,626	64,114	–	2,550	–	–	24,626	66,664
Loans to cooperatives	2,499	–	–	–	–	–	2,499	–
Processing and marketing	35,616	20,097	–	15,216	–	–	35,616	35,313
Farm-related business	685	–	–	–	–	–	685	–
Communication	11,486	–	–	–	–	–	11,486	–
Power and water/waste disposal	3,122	–	–	–	–	–	3,122	–
International	6,446	–	–	–	–	–	6,446	–
Total	$ 107,322	$ 134,001	$ –	$ 51,138	$ –	$ –	$ 107,322	$ 185,139

	December 31, 2018							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 14,496	$ 44,247	$ –	$ 14,532	$ –	$ –	$ 14,496	$ 58,779
Production and intermediate-term	16,394	58,833	–	1,709	–	–	16,394	60,542
Loans to cooperatives	3,372	–	–	–	–	–	3,372	–
Processing and marketing	32,613	15,081	–	7,728	–	–	32,613	22,809
Communication	15,006	–	–	–	–	–	15,006	–
Power and water/waste disposal	3,748	–	–	–	–	–	3,748	–
International	5,841	–	–	–	–	–	5,841	–
Total	$ 91,470	$ 118,161	$ –	$ 23,969	$ –	$ –	$ 91,470	$ 142,130

	December 31, 2017							
	Within AgFirst District		Within Farm Credit System		Outside Farm Credit System		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 5,532	$ 61,634	$ –	$ 14,937	$ –	$ –	$ 5,532	$ 76,571
Production and intermediate-term	26,894	76,718	–	9,039	–	–	26,894	85,757
Loans to cooperatives	1,383	–	–	–	–	–	1,383	–
Processing and marketing	39,916	6,046	–	–	–	–	39,916	6,046
Farm-related business	–	3,181	–	–	–	–	–	3,181
Communication	20,026	–	–	–	–	–	20,026	–
Power and water/waste disposal	3,843	–	–	–	–	–	3,843	–
International	5,841	–	–	–	–	–	5,841	–
Total	$ 103,435	$ 147,579	$ –	$ 23,976	$ –	$ –	$ 103,435	$ 171,555

A significant source of liquidity for the Association is the repayments of loans. The following table presents the contractual maturity distribution of loans by loan type at the latest period end:

	December 31, 2019			
	Due Less Than 1 Year	Due 1 Through 5 Years	Due After 5 Years	Total
Real estate mortgage	$ 3,756	$ 49,242	$ 260,119	$ 313,117
Production and intermediate-term	29,644	86,020	41,164	156,828
Loans to cooperatives	–	1,861	627	2,488
Processing and marketing	2,876	29,209	28,061	60,146
Farm-related business	315	1,823	4,471	6,609
Communication	1,403	3,520	6,527	11,450
Power and water/waste disposal	–	3,105	–	3,105
Rural residential real estate	53	352	7,852	8,257
International	–	604	5,831	6,435
Total loans	$ 38,047	$ 175,736	$ 354,652	$ 568,435
Percentage	6.69%	30.92%	62.39%	100.00%

The recorded investment in a receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges, or acquisition costs and may also reflect a previous direct write-down of the investment.

The following table shows loans and related accrued interest classified under the FCA Uniform Loan Classification System as a percentage of total loans and related accrued interest receivable by loan type as of:

	December 31, 2019	2018	2017
Real estate mortgage:			
Acceptable	98.78%	98.29%	96.71%
OAEM	0.14	0.28	1.51
Substandard/doubtful/loss	1.08	1.43	1.78
	100.00%	100.00%	100.00%
Production and intermediate-term:			
Acceptable	96.49%	93.05%	89.97%
OAEM	0.93	1.74	5.83
Substandard/doubtful/loss	2.58	5.21	4.20
	100.00%	100.00%	100.00%
Loans to cooperatives:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Processing and marketing:			
Acceptable	99.78%	100.00%	99.99%
OAEM	–	–	0.01
Substandard/doubtful/loss	0.22	–	–
	100.00%	100.00%	100.00%
Farm-related business:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%

	December 31, 2019	2018	2017
Communication:			
Acceptable	100.00%	79.28%	100.00%
OAEM	–	20.72	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Power and water/waste disposal:			
Acceptable	–%	100.00%	100.00%
OAEM	100.00	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Rural residential real estate:			
Acceptable	93.56%	92.73%	91.43%
OAEM	0.28	0.32	3.49
Substandard/doubtful/loss	6.16	6.95	5.08
	100.00%	100.00%	100.00%
International:			
Acceptable	100.00%	100.00%	100.00%
OAEM	–	–	–
Substandard/doubtful/loss	–	–	–
	100.00%	100.00%	100.00%
Total Loans:			
Acceptable	97.70%	96.52%	95.28%
OAEM	0.88	1.20	2.51
Substandard/doubtful/loss	1.42	2.28	2.21
	100.00%	100.00%	100.00%

The following tables provide an aging analysis of past due loans and related accrued interest as of:

December 31, 2019	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 1,808	$ 1,306	$ 3,114	$ 311,565	$ 314,679
Production and intermediate-term	703	2,009	2,712	154,677	157,389
Loans to cooperatives	–	–	–	2,490	2,490
Processing and marketing	136	–	136	60,158	60,294
Farm-related business	–	–	–	6,625	6,625
Communication	–	–	–	11,452	11,452
Power and water/waste disposal	–	–	–	3,108	3,108
Rural residential real estate	142	335	477	7,810	8,287
International	–	–	–	6,460	6,460
Total	$ 2,789	$ 3,650	$ 6,439	$ 564,345	$ 570,784

December 31, 2018	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 232	$ 2,064	$ 2,296	$ 298,161	$ 300,457
Production and intermediate-term	590	348	938	142,855	143,793
Loans to cooperatives	–	–	–	3,369	3,369
Processing and marketing	–	–	–	54,591	54,591
Farm-related business	–	–	–	6,345	6,345
Communication	–	–	–	14,940	14,940
Power and water/waste disposal	–	–	–	3,742	3,742
Rural residential real estate	141	353	494	7,745	8,239
International	–	–	–	5,863	5,863
Total	$ 963	$ 2,765	$ 3,728	$ 537,611	$ 541,339

	December 31, 2017				
	30 Through 89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans
Real estate mortgage	$ 443	$ 56	$ 499	$ 277,020	$ 277,519
Production and intermediate-term	1,484	2,990	4,474	149,449	153,923
Loans to cooperatives	–	–	–	1,382	1,382
Processing and marketing	–	–	–	56,342	56,342
Farm-related business	–	–	–	8,200	8,200
Communication	–	–	–	19,949	19,949
Power and water/waste disposal	–	–	–	3,833	3,833
Rural residential real estate	99	84	183	8,197	8,380
International	–	–	–	5,852	5,852
Total	$ 2,026	$ 3,130	$ 5,156	$ 530,224	$ 535,380

Nonperforming assets (including related accrued interest) and related credit quality statistics were as follows:

	December 31,		
	2019	2018	2017
Nonaccrual loans:			
Real estate mortgage	$ 3,107	$ 4,830	$ 1,861
Production and intermediate-term	3,435	7,500	5,892
Rural residential real estate	425	573	426
Total	$ 6,967	$ 12,903	$ 8,179
Accruing restructured loans:			
Real estate mortgage	$ 4,643	$ 5,100	$ 4,822
Production and intermediate-term	3,329	3,599	4,591
Rural residential real estate	246	178	345
Total	$ 8,218	$ 8,877	$ 9,758
Accruing loans 90 days or more past due:			
Total	$ –	$ –	$ –
Total nonperforming loans	$ 15,185	$ 21,780	$ 17,937
Other property owned	–	–	–
Total nonperforming assets	$ 15,185	$ 21,780	$ 17,937
Nonaccrual loans as a percentage of total loans	1.23%	2.39%	1.53%
Nonperforming assets as a percentage of total loans and other property owned	2.67%	4.04%	3.36%
Nonperforming assets as a percentage of capital	13.39%	19.96%	17.46%

The following table presents information relating to impaired loans (including accrued interest) as defined in Note 2:

	December 31,		
	2019	2018	2017
Impaired nonaccrual loans:			
Current as to principal and interest	$ 1,269	$ 10,022	$ 4,192
Past due	5,698	2,881	3,987
Total	$ 6,967	$ 12,903	$ 8,179
Impaired accrual loans:			
Restructured	$ 8,218	$ 8,877	$ 9,758
90 days or more past due	–	–	–
Total	$ 8,218	$ 8,877	$ 9,758
Total impaired loans	$ 15,185	$ 21,780	$ 17,937
Additional commitments to lend	$ –	$ –	$ 1,125

The following tables present additional impaired loan information at period end. Unpaid principal balance represents the contractual principal balance of the loan.

	December 31, 2019			Year Ended December 31, 2019	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 2,242	$ 2,458	$ 725	$ 2,528	$ 217
Production and intermediate-term	3,696	3,702	792	4,166	358
Rural residential real estate	495	620	97	558	48
Total	$ 6,433	$ 6,780	$ 1,614	$ 7,252	$ 623
With no related allowance for credit losses:					
Real estate mortgage	$ 5,508	$ 5,536	$ –	$ 6,207	$ 533
Production and intermediate-term	3,068	3,347	–	3,460	297
Rural residential real estate	176	247	–	199	17
Total	$ 8,752	$ 9,130	$ –	$ 9,866	$ 847
Total impaired loans:					
Real estate mortgage	$ 7,750	$ 7,994	$ 725	$ 8,735	$ 750
Production and intermediate-term	6,764	7,049	792	7,626	655
Rural residential real estate	671	867	97	757	65
Total	$ 15,185	$ 15,910	$ 1,614	$ 17,118	$ 1,470

	December 31, 2018			Year Ended December 31, 2018	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 2,082	$ 2,180	$ 114	$ 1,777	$ 162
Production and intermediate-term	5,907	6,695	932	5,043	458
Rural residential real estate	671	801	104	573	52
Total	$ 8,660	$ 9,676	$ 1,150	$ 7,393	$ 672
With no related allowance for credit losses:					
Real estate mortgage	$ 7,848	$ 8,070	$ –	$ 6,700	$ 609
Production and intermediate-term	5,192	5,386	–	4,432	404
Rural residential real estate	80	149	–	68	6
Total	$ 13,120	$ 13,605	$ –	$ 11,200	$ 1,019
Total impaired loans:					
Real estate mortgage	$ 9,930	$ 10,250	$ 114	$ 8,477	$ 771
Production and intermediate-term	11,099	12,081	932	9,475	862
Rural residential real estate	751	950	104	641	58
Total	$ 21,780	$ 23,281	$ 1,150	$ 18,593	$ 1,691

	December 31, 2017			Year Ended December 31, 2017	
Impaired loans:	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Impaired Loans**	**Interest Income Recognized on Impaired Loans**
With a related allowance for credit losses:					
Real estate mortgage	$ 924	$ 976	$ 147	$ 946	$ 58
Production and intermediate-term	8,702	9,047	2,000	8,912	543
Rural residential real estate	509	540	70	521	32
Total	$ 10,135	$ 10,563	$ 2,217	$ 10,379	$ 633
With no related allowance for credit losses:					
Real estate mortgage	$ 5,759	$ 5,957	$ –	$ 5,898	$ 359
Production and intermediate-term	1,781	3,362	–	1,824	112
Rural residential real estate	262	419	–	268	16
Total	$ 7,802	$ 9,738	$ –	$ 7,990	$ 487
Total impaired loans:					
Real estate mortgage	$ 6,683	$ 6,933	$ 147	$ 6,844	$ 417
Production and intermediate-term	10,483	12,409	2,000	10,736	655
Rural residential real estate	771	959	70	789	48
Total	$ 17,937	$ 20,301	$ 2,217	$ 18,369	$ 1,120

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate-term	Agribusiness*	Communication	Power and Water/Waste Disposal	Rural Residential Real Estate	International	Total
Activity related to the allowance for credit losses:								
Balance at December 31, 2018	$ 1,255	$ 1,749	$ 100	$ 37	$ 5	$ 122	$ 2	$ 3,270
Charge-offs	(8)	(6)	–	–	–	(10)	–	(24)
Recoveries	92	132	–	–	–	67	–	291
Provision for loan losses	129	(485)	7	(18)	12	(69)	–	(424)
Balance at December 31, 2019	$ 1,468	$ 1,390	$ 107	$ 19	$ 17	$ 110	$ 2	$ 3,113
Balance at December 31, 2017	$ 1,116	$ 2,833	$ 85	$ 48	$ 4	$ 96	$ 3	$ 4,185
Charge-offs	(5)	(95)	–	–	–	(1)	–	(101)
Recoveries	44	909	–	–	–	8	–	961
Provision for loan losses	100	(1,898)	15	(11)	1	19	(1)	(1,775)
Balance at December 31, 2018	$ 1,255	$ 1,749	$ 100	$ 37	$ 5	$ 122	$ 2	$ 3,270
Balance at December 31, 2016	$ 1,481	$ 3,096	$ 90	$ 25	$ –	$ 71	$ 3	$ 4,766
Charge-offs	(2)	(43)	–	–	–	–	–	(45)
Recoveries	50	84	–	–	–	8	–	142
Provision for loan losses	(413)	(304)	(5)	23	4	17	–	(678)
Balance at December 31, 2017	$ 1,116	$ 2,833	$ 85	$ 48	$ 4	$ 96	$ 3	$ 4,185
Allowance on loans evaluated for impairment:								
Individually	$ 725	$ 792	$ –	$ –	$ –	$ 97	$ –	$ 1,614
Collectively	743	598	107	19	17	13	2	1,499
Balance at December 31, 2019	$ 1,468	$ 1,390	$ 107	$ 19	$ 17	$ 110	$ 2	$ 3,113
Individually	$ 114	$ 932	$ –	$ –	$ –	$ 104	$ –	$ 1,150
Collectively	1,141	817	100	37	5	18	2	2,120
Balance at December 31, 2018	$ 1,255	$ 1,749	$ 100	$ 37	$ 5	$ 122	$ 2	$ 3,270
Individually	$ 147	$ 2,000	$ –	$ –	$ –	$ 70	$ –	$ 2,217
Collectively	969	833	85	48	4	26	3	1,968
Balance at December 31, 2017	$ 1,116	$ 2,833	$ 85	$ 48	$ 4	$ 96	$ 3	$ 4,185
Recorded investment in loans evaluated for impairment:								
Individually	$ 7,749	$ 6,829	$ –	$ –	$ –	$ 671	$ –	$ 15,249
Collectively	306,930	150,560	69,409	11,452	3,108	7,616	6,460	555,535
Balance at December 31, 2019	$ 314,679	$ 157,389	$ 69,409	$ 11,452	$ 3,108	$ 8,287	$ 6,460	$ 570,784
Individually	$ 9,931	$ 11,100	$ –	$ –	$ –	$ 751	$ –	$ 21,782
Collectively	290,526	132,693	64,305	14,940	3,742	7,488	5,863	519,557
Balance at December 31, 2018	$ 300,457	$ 143,793	$ 64,305	$ 14,940	$ 3,742	$ 8,239	$ 5,863	$ 541,339
Individually	$ 7,023	$ 10,535	$ –	$ –	$ –	$ 771	$ –	$ 18,329
Collectively	270,496	143,388	65,924	19,949	3,833	7,609	5,852	517,051
Balance at December 31, 2017	$ 277,519	$ 153,923	$ 65,924	$ 19,949	$ 3,833	$ 8,380	$ 5,852	$ 535,380

** Includes the loan types: Loans to cooperatives, Processing and Marketing, and Farm-related business.*

To mitigate risk of loan losses, the Association may enter into guarantee arrangements with certain GSEs, including the Federal Agricultural Mortgage Corporation (Farmer Mac), and state or federal agencies. These guarantees generally remain in place until the loans are paid in full or expire and give the Association the right to be reimbursed for losses incurred or to sell designated loans to the guarantor in the event of default (typically four months past due), subject to certain conditions. The guaranteed balance of designated loans under these agreements was $98,166, $100,365, and $91,745 at December 31, 2019, 2018, and 2017, respectively. Fees paid for such guarantee commitments totaled $352, $339, and $193 for 2019, 2018, and 2017, respectively. These amounts are classified as noninterest expense.

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. The following table presents additional information about pre-modification and post-modification outstanding recorded investment and the effects of the modifications that occurred during the periods presented. There were no new TDRs that occurred during 2019 or 2018.

	Year Ended December 31, 2017				
Outstanding Recorded Investment	**Interest Concessions**	**Principal Concessions**	**Other Concessions**	**Total**	**Charge-offs**
Pre-modification:					
Real estate mortgage	$ –	$ 196	$ –	$ 196	
Total	$ –	$ 196	$ –	$ 196	
Post-modification:					
Real estate mortgage	$ –	$ 204	$ –	$ 204	$ (1)
Total	$ –	$ 204	$ –	$ 204	$ (1)

Interest concessions may include interest forgiveness and interest deferment. Principal concessions may include principal forgiveness, principal deferment, and maturity extension. Other concessions may include additional compensation received which might be in the form of cash or other assets.

There were no TDRs that occurred during the previous twelve months and for which there was a subsequent payment default during periods presented. Payment default is defined as a payment that was thirty days or more past due.

The following table provides information at each period end on outstanding loans restructured in troubled debt restructurings. These loans are included as impaired loans in the impaired loan table.

	Total TDRs			Nonaccrual TDRs		
	December 31,			December 31,		
	2019	2018	2017	2019	2018	2017
Real estate mortgage	$ 4,741	$ 5,280	$ 5,388	$ 98	$ 180	$ 566
Production and intermediate-term	3,761	4,864	6,048	432	1,265	1,457
Rural residential real estate	245	256	428	(1)	78	83
Total loans	$ 8,747	$ 10,400	$ 11,864	$ 529	$ 1,523	$ 2,106
Additional commitments to lend	$ –	$ –	$ –			

The following table presents information as of period end:

	December 31, 2019
Carrying amount of foreclosed residential real estate properties held as a result of obtaining physical possession	$ –
Recorded investment of consumer mortgage loans secured by residential real estate for which formal foreclosure proceedings are in process	$ 304

Note 4 — Investments

Investments in Debt Securities

The Association's investments consist primarily of asset-backed securities (ABSs). These ABSs are issued through the Small Business Administration and are guaranteed by the full faith and credit of the United States government. They are held for managing short-term surplus funds and reducing interest rate risk. These securities meet the applicable FCA regulatory guidelines related to government agency guaranteed investments.

A summary of the amortized cost and fair value of investment securities held-to-maturity follows:

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 5,262	$ 15	$ (72)	$ 5,205	4.54%

December 31, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 7,913	$ 31	$ (79)	$ 7,865	4.84%

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Yield
ABSs	$ 13,029	$ 272	$ (23)	$ 13,278	2.17%

A summary of the contractual maturity, amortized cost and estimated fair value of investment securities held-to-maturity follows:

December 31, 2019	Amortized Cost	Fair Value	Weighted Average Yield
In one year or less	$ 28	$ 27	5.00%
After one year through five years	1,224	1,217	4.17
After five years through ten years	195	187	3.97
After ten years	3,815	3,774	4.68
Total	$ 5,262	$ 5,205	4.54%

A portion of these investments has contractual maturities in excess of ten years. However, expected maturities for these types of securities can differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

An investment is considered impaired if its fair value is less than its cost. The following tables show the fair value and gross unrealized losses for investments that were in a continuous unrealized loss position aggregated by investment category at each reporting period. A continuous unrealized loss position for an investment is measured from the date the impairment was first identified.

	December 31, 2019			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 284	$ (2)	$ 3,221	$ (70)

	December 31, 2018			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 4,723	$ (63)	$ 758	$ (16)

	December 31, 2017			
	Less than 12 Months		12 Months or Greater	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
ABSs	$ 1,325	$ (6)	$ 1,030	$ (17)

The recording of an impairment loss is predicated on: (1) whether or not management intends to sell the security, (2) whether it is more likely than not that management would be required to sell the security before recovering its costs, and (3) whether management expects to recover the security's entire amortized cost basis (even if there is no intention to sell). If the Association intends to sell the security or it is more likely than not that it would be required to sell the security, the impairment loss equals the full difference between amortized cost and fair value of the security. When the Association does not intend to sell securities in an unrealized loss position and it is not more likely than not that it would be required to sell the securities, other-than-temporary impairment (OTTI) loss is separated into credit loss and non-credit loss. Credit loss is defined as the shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis.

The Association performs periodic credit reviews, including OTTI analyses, on its investment securities portfolio. The objective is to quantify future possible loss of principal or interest due on securities in the portfolio. Factors considered in determining whether an impairment is other-than-temporary include among others: (1) the length of time and the extent to which the fair value is less than cost, (2) adverse conditions specifically related to the industry, (3) geographic area and the condition of the underlying collateral, (4) payment structure of the security, (5) ratings by rating agencies, (6) the credit worthiness of bond insurers, and (7) volatility of the fair value changes.

The Association uses the present value of cash flows expected to be collected from each debt security to determine the amount of credit loss. This technique requires assumptions related to the underlying collateral, including default rates, amount and timing of prepayments, and loss severity. Assumptions can vary widely from security to security and are influenced by such factors as loan interest rate, geographical location of the borrower, borrower characteristics, and collateral type.

Significant inputs used to estimate the amount of credit loss include, but are not limited to, performance indicators of the underlying assets in the security (including default rates, delinquency rates, and percentage of nonperforming assets), loan-to-collateral value ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, and credit ratings. The Association may obtain assumptions for the default rate, prepayment rate, and loss severity rate from an independent third party, or generate the assumptions internally.

The Association has not recognized any credit losses as any impairments were deemed temporary and resulted from non-credit related factors. The Association has the ability and intent to hold these temporarily impaired investments until a recovery of unrealized losses occurs, which may be at maturity, and at this time expects to collect the full principal amount and interest due on these securities, especially after considering credit enhancements.

Substantially all of these investments were in U.S. government agency securities and the Association expects these securities would not be settled at a price less than their amortized cost. All securities continue to perform at period end.

Equity Investments in Other Farm Credit Institutions

Equity investments in other Farm Credit System institutions are generally nonmarketable investments consisting of stock and participation certificates, allocated surplus, and reciprocal investments in other institutions regulated by the FCA. These investments are carried at cost and evaluated for impairment based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value.

The Association is required to maintain ownership in the Bank in the form of Class B or Class C stock as determined by the Bank. The Bank may require additional capital contributions to maintain its capital requirements. The Association's investment in the Bank totaled $6,123 for 2019, $6,029 for 2018 and $5,771 for 2017. The Association owned 2.16 percent of the issued stock of the Bank as of December 31, 2019 net of any reciprocal investment. As of that date, the Bank's assets totaled $34.5 billion and shareholders' equity totaled $2.3 billion. The Bank's earnings were $272 million for 2019. In addition, the Association had investments of $554 related to other Farm Credit institutions at December 31, 2019.

Note 5 — Real Estate and Other Property

Premises and Equipment

Premises and equipment consists of the following:

	December 31,		
	2019	2018	2017
Land	$ 658	$ 658	$ 208
Buildings and improvements	2,157	1,273	914
Furniture and equipment	1,483	1,439	1,317
	4,298	3,370	2,439
Less: accumulated depreciation	1,715	1,623	1,583
Total	$ 2,583	$ 1,747	$ 856

In 2018, the Association purchased a building and land to serve as its future Brooksville location. The purchase price was approximately $750 thousand.

Other Property Owned

Net (gains) losses on other property owned consist of the following:

	December 31,		
	2019	2018	2017
(Gains) losses on sale, net	$ (3)	$ –	$ –
Carrying value unrealized (gains) losses	2	–	63
Operating (income) expense, net	2	–	3
(Gains) losses on other property owned, net	$ 1	$ –	$ 66

Gains on sales of other property owned were deferred if the sales involved financing from the Association and did not meet the criteria for immediate recognition. There were no deferred gains at December 31, 2019, 2018, and 2017.

Note 6 — Debt

Notes Payable to AgFirst Farm Credit Bank

Under the Farm Credit Act, the Association is obligated to borrow only from the Bank, unless the Bank approves borrowing from other funding sources. The borrowing relationship is established with the Bank through a General Financing Agreement (GFA). The GFA utilizes the Association's credit and fiscal performance as criteria for establishing a line of credit on which the Association may draw funds. The GFA has a one year term which expires on December 31 and is renewable each year. The Association has no reason to believe the GFA will not be renewed upon expiration. The Bank, consistent with FCA regulations, has established limitations on the Association's ability to borrow funds based on specified factors or formulas relating primarily to credit quality and financial condition. At December 31, 2019, the Association's notes payable were within the specified limitations.

The Association's indebtedness to the Bank represents borrowings by the Association to fund its earning assets. This indebtedness is collateralized by a pledge of substantially all of the Association's assets and the terms of the revolving lines of credit are governed by the GFA. Interest rates on both variable and fixed rate advances are generally established loan-by-loan based on the Bank's marginal cost of funds, capital position, operating costs and return objectives. In the event of prepayment of any portion of a fixed rate advance, the Association may incur a prepayment penalty in accordance with the terms of the GFA and which will be included in interest expense. The interest rate is periodically adjusted by the Bank based upon agreement between the Bank and the Association.

The weighted average interest rates on the variable rate advances were 2.79 percent for LIBOR-based loans and 2.91 percent for Prime-based loans, and the weighted average remaining maturities were 4.3 years and 3.0 years, respectively, at December 31, 2019. The weighted-average interest rate on the fixed rate and adjustable rate mortgage (ARM) loans which are match funded by the Bank was 3.27 percent, and the weighted average remaining maturity was 12.3 years at December 31, 2019. The weighted-average interest rate on all interest-bearing notes payable was 3.09 percent and the weighted-average remaining maturity was 9.2 years at December 31, 2019. Variable rate and fixed rate notes payable represent approximately 22.74 percent and 77.26 percent, respectively, of total notes payable at December 31, 2019. The weighted average maturities described above are related to matched-funded loans. The direct note itself has an annual maturity as prescribed in the GFA.

Note 7 — Members' Equity

A description of the Association's capitalization requirements, protection mechanisms, regulatory capitalization requirements and restrictions, and equities are provided below:

A. **Protected Borrower Equity:** Protection of certain borrower equity is provided under the Farm Credit Act which requires the Association, when retiring protected borrower equity, to retire such equity at par or stated value regardless of its book value. Protected borrower equity includes capital stock, participation certificates and allocated equities which were outstanding as of January 6, 1988, or were issued or allocated prior to October 6, 1988. If an Association is unable to retire protected borrower equity at par value or stated value, amounts required to retire this equity would be obtained from the Insurance Fund.

B. **Capital Stock and Participation Certificates:** In accordance with the Farm Credit Act and the Association's capitalization bylaws, each borrower is required to invest in Class C stock for agricultural loans, or participation certificates in the case of rural home and farm related business loans, as a condition of borrowing. The initial borrower investment, through either purchase or transfer, must be in an amount equal to the lesser of $1 thousand or two percent of the amount of the loan. The Board of Directors may increase the amount of investment if necessary to meet the Association's capital needs. Loans designated for sale or sold into the Secondary Market on or after April 16, 1996 will have no voting stock or participation certificate purchase requirement if sold within 180 days following the date of designation.

   The borrower acquires ownership of the capital stock or participation certificates at the time the loan is made, but usually does not make a cash investment. The aggregate par value is generally added to the principal amount of the related loan obligation. The Association retains a first lien on the stock or participation certificates owned by borrowers. Retirement of such equities will generally be at the lower of par or book value, and repayment of a loan does not automatically result in retirement of the corresponding stock or participation certificates.

C. **Regulatory Capitalization Requirements and Restrictions:** An FCA regulation empowers it to direct a transfer of funds or equities by one or more System institutions to another System institution under specified circumstances. The Association has not been called upon to initiate any transfers and is not aware of any proposed action under this regulation.

   There are currently no prohibitions in place that would prevent the Association from retiring stock, distributing earnings, or paying dividends per the statutory and regulatory restrictions, and the Association has no reason to believe any such restrictions may apply in the future.

   Effective January 1, 2017, the regulatory capital requirements for System banks and associations were modified. These regulations ensure that the System's capital requirements are comparable to the Basel III framework and the standardized approach that the federal banking regulatory agencies have adopted. Regulatory ratios include common equity tier 1 (CET1) capital, tier 1 capital, and total capital risk-based ratios. The regulations also include a tier 1 leverage ratio and an unallocated retained earnings (URE) and URE equivalents (UREE) leverage ratio. The permanent capital ratio (PCR) remains in effect.

The ratios are calculated using three-month average daily balances, in accordance with FCA regulations, as follows:

- The CET1 capital ratio is the sum of statutory minimum purchased borrower stock, other required borrower stock held for a minimum of 7 years, allocated equities held for a minimum of 7 years or not subject to revolvement, unallocated retained earnings, and paid-in capital, less certain regulatory required deductions including the amount of investments in other System institutions, divided by average risk-adjusted assets.
- The tier 1 capital ratio is CET1 capital plus non-cumulative perpetual preferred stock, divided by average risk-adjusted assets.
- The total capital ratio is tier 1 capital plus other required borrower stock held for a minimum of 5 years, subordinated debt and limited-life preferred stock greater than 5 years to maturity at issuance subject to certain limitations, and allowance for loan losses and reserve for unfunded commitments under certain limitations less certain investments in other System institutions under the corresponding deduction approach, divided by average risk-adjusted assets.
- The permanent capital ratio is all at-risk borrower stock, any allocated excess stock, unallocated retained earnings, paid-in capital, subordinated debt and preferred stock subject to certain limitations, less certain investments in other System institutions, divided by PCR risk-adjusted assets.
- The tier 1 leverage ratio is tier 1 capital, divided by average total assets less regulatory deductions to tier 1 capital.
- The URE and UREE leverage ratio is unallocated retained earnings, paid-in capital, and allocated surplus not subject to revolvement less certain regulatory required deductions including the amount of allocated investments in other System institutions divided by average total assets less regulatory deductions to tier 1 capital.

The following sets forth the regulatory capital ratios which were effective January 1, 2017:

Ratio	Minimum Requirement	Capital Conservation Buffer*	Minimum Requirement with Capital Conservation Buffer	Capital Ratios as of December 31, 2019	2018	2017
Risk-adjusted ratios:						
CET1 Capital	4.5%	1.875%	6.375%	20.04%	19.91%	18.58%
Tier 1 Capital	6.0%	1.875%	7.875%	20.04%	19.91%	18.58%
Total Capital	8.0%	1.875%	9.875%	20.48%	20.54%	19.50%
Permanent Capital	7.0%	0.0%	7.0%	20.13%	20.03%	18.75%
Non-risk-adjusted ratios:						
Tier 1 Leverage	4.0%	1.0%	5.0%	19.49%	19.00%	17.80%
URE and UREE Leverage	1.5%	0.0%	1.5%	16.48%	15.61%	14.02%

** The capital conservation buffers have a 3 year phase-in period and became fully effective January 1, 2020. Risk-adjusted ratio minimums increased 0.625% each year until fully phased in. There was no phase-in period for the tier 1 leverage ratio.*

If the capital ratios fall below the minimum regulatory requirements, including the buffer amounts, capital distributions (equity redemptions, dividends, and patronage) and discretionary senior executive bonuses are restricted or prohibited without prior FCA approval.

D. **Description of Equities:** The Association is authorized to issue or have outstanding Classes A and D Preferred Stock, Classes A, B and C Common Stock, Classes B and C Participation Certificates and such other classes of equity as may be provided for in amendments to the bylaws in such amounts as may be necessary to conduct the Association's business. All stock and participation certificates have a par or face value of five dollars ($5.00) per share.

The Association had the following shares outstanding at December 31, 2019:

Class	Protected	Shares Outstanding Number	Aggregate Par Value
C Common/Voting	No	165,843	$ 829
C Participation Certificates/Nonvoting	No	22,476	113
Total Capital Stock and Participation Certificates		188,319	$ 942

Protected common stock and participation certificates are retired at par or face value in the normal course of business. At-risk common stock and participation certificates are retired at the sole discretion of the Board at book value not to exceed par or face amounts, provided the minimum capital adequacy standards established by the Board are met.

Retained Earnings

The Association maintains an unallocated retained earnings account and an allocated retained earnings account. The minimum aggregate amount of these two accounts is determined by the Board. At the end of any fiscal year, if the retained earnings accounts otherwise would be less than the minimum amount determined by the Board as necessary to maintain adequate capital reserves to meet the commitments of the Association, the Association shall apply earnings for the year to the unallocated retained earnings account in such amounts as may be determined necessary by the Board. Unallocated retained earnings are maintained for each borrower to permit liquidation on a patronage basis.

The Association maintains an allocated retained earnings account consisting of earnings held and allocated to

borrowers on a patronage basis. In the event of a net loss for any fiscal year, such allocated retained earnings account will be subject to full impairment in the order specified in the bylaws beginning with the most recent allocation.

The Association has a first lien and security interest on all retained earnings account allocations owned by any borrowers, and all distributions thereof, as additional collateral for their indebtedness to the Association. When the debt of a borrower is in default or is in the process of final liquidation by payment or otherwise, the Association, upon approval of the Board, may order any and all retained earnings account allocations owned by such borrower to be applied on the indebtedness.

Allocated equities shall be retired solely at the discretion of the Board, provided that minimum capital standards established by the FCA and the Board are met.

At December 31, 2019, allocated members' equity consisted of $145 of qualified surplus, $19,340 of nonqualified allocated surplus and $2,152 of nonqualified retained surplus. Nonqualified distributions are tax deductible only when redeemed.

Dividends

The Association may declare noncumulative dividends on its capital stock and participation certificates provided the dividend rate does not exceed 20 percent of the par value of the respective capital stock and participation certificates. Such dividends may be paid solely on Classes A and D Preferred Stock or on all classes of stock and participation certificates.

The rate of dividends paid on Class A Preferred Stock for any fiscal year may not be less than the rate of dividends paid on Classes A, B or C Common Stock or participation certificates for such year. The rate of dividends on Classes A, B and C Common Stock and participation certificates shall be at the same rate per share.

Dividends may not be declared if, after recording the liability, the Association would not meet its capital adequacy standards. No dividends were declared by the Association for any of the periods included in these Consolidated Financial Statements.

Patronage Distributions

Prior to the beginning of any fiscal year, the Board, by adoption of a resolution, may obligate the Association to distribute to borrowers on a patronage basis all or any portion of available net earnings for such fiscal year or for that and subsequent fiscal years. Patronage distributions are based on the proportion of the borrower's interest to the amount of interest earned by the Association on its total loans unless another proportionate patronage basis is approved by the Board.

If the Association meets its capital adequacy standards after making the patronage distributions, the patronage distributions may be in cash, authorized stock of the Association, allocations of earnings retained in an allocated members' equity account, or any one or more of such forms of distribution. Patronage distributions of the Association's earnings may be paid on either a qualified or nonqualified basis, or a combination of both, as determined by the Board. A minimum of 20 percent of the total qualified patronage distribution to any borrower for any fiscal year shall always be paid in cash.

Transfer

Classes A and D Preferred, Classes A, B and C Common Stocks, and Classes B and C Participation Certificates may be transferred to persons or entities eligible to purchase or hold such equities.

Impairment

Any net losses recorded by the Association shall first be applied against unallocated members' equity. To the extent that such losses would exceed unallocated members' equity, such losses would be applied consistent with the Association's bylaws and distributed pro rata to each share and/or unit outstanding in the class, in the following order:

a) ***First***, Assistance Preferred Stock issued and outstanding (if any);
b) ***Second***, allocated surplus evidenced by nonqualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
c) ***Third***, allocated surplus evidenced by qualified written notices of allocation, in its entirety, with application to most recent allocation first and then in reverse order until all such allocated surplus has been exhausted;
d) ***Fourth***, Class A Common and Class B Common Stock, Class C Common Stock, Class E Common Stock, Class C Participation Certificates and Class B Participation Certificates issued and outstanding, pro rata until such stock is fully impaired;
e) ***Fifth***, Class A Preferred and Class D Preferred Stock issued and outstanding, if any.

Liquidation

In the event of liquidation or dissolution of the Association, any assets of the Association remaining after payment or retirement of all liabilities should be distributed to the holders of the outstanding stock and participation certificates in the following order:

a) ***First***, to the holders of Class A Preferred and Class D Preferred Stock until an amount equal to the aggregate par value of all shares of said stock then issued and outstanding has been distributed to such holders;
b) ***Second***, to the holders of Class A Common, Class B Common, Class C Common Stock, Class E Common Stock, and Class B Participation Certificates and Class C Participation Certificates, pro rata in proportion to the number of shares or units of each such class of stock or participation certificate then issued and outstanding, until an amount equal to the aggregate par value or face amount of all such shares or units has been distributed to such holders;

c) ***Third***, to the holders of allocated surplus evidenced by qualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
d) ***Fourth***, to the holders of allocated surplus evidenced by nonqualified written notices of allocation, in the order of year of issuance and pro rata by year of issuance, until the total amount of such allocated surplus has been distributed;
e) ***Fifth***, in so far as practicable, all unallocated surplus issued after April 15, 1999, shall be distributed to Patrons of the Association from the period beginning April 15, 1999, through the date of liquidation, on a patronage basis; and
f) ***Sixth***, any remaining assets of the Association after such distributions shall be distributed ratably to the holders of all classes of stock and participation certificates in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

All distributions to the holders of any class of stock and/or participation certificate holders shall be made pro rata in proportion to the number of shares or units of such class of stock or participation certificates held by such holders.

E. **Accumulated Other Comprehensive Income (AOCI):**

Changes in Accumulated Other Comprehensive income by Component *(a)*

	For the Year Ended December 31,		
	2019	2018	2017
Employee Benefit Plans:			
Balance at beginning of period	$ (461)	$ (570)	$ (499)
Other comprehensive income before reclassifications	(271)	34	(128)
Amounts reclassified from AOCI	68	75	57
Net current period OCI	(203)	109	(71)
Balance at end of period	$ (664)	$ (461)	$ (570)

Reclassifications Out of Accumulated Other Comprehensive Income *(b)*

	For the Year Ended December 31,			
	2019	2018	2017	Income Statement Line Item
Defined Benefit Pension Plans:				
Periodic pension costs	$ (68)	$ (75)	$ (57)	See Note 9.
Amounts reclassified	$ (68)	$ (75)	$ (57)	

(a) Amounts in parentheses indicate debits to AOCI.
(b) Amounts in parentheses indicate debits to profit/loss.

Note 8 — Fair Value Measurement

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability.

Accounting guidance establishes a hierarchy for disclosure of fair value measurements to maximize the use of observable inputs, that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability based on market data obtained from sources independent of the reporting entity. The hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy tiers is based upon the lowest level of input that is significant to the fair value measurement.

Estimating the fair value of the Association's equity investments in the Bank and other Farm Credit institutions is not practicable because the stock is not traded. The net investment is a requirement of borrowing from the Bank and is carried at cost.

The classifications within the fair value hierarchy (See Note 2) are as follows:

Level 1
Assets held in trust funds, related to a supplemental retirement plan, are classified as Level 1. The trust funds include investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace. These funds may be redeemed on any business day on which the New York Stock Exchange is open for regular trading.

For cash, the carrying value is primarily utilized as a reasonable estimate of fair value.

Level 2
ABSs, such as those issued through the Small Business Administration, are classified Level 2.

Level 3
Because no active market exists for the Association's accruing loans, fair value is estimated by discounting the expected future cash flows using the Association's current interest rates at which similar loans currently would be made to borrowers with similar credit risk. The loan portfolio is segregated into pools of loans with homogeneous characteristics based upon

repricing and credit risk. Expected future cash flows and interest rates reflecting appropriate credit risk are separately determined for each individual pool.

Fair values of loans in a nonaccrual status are estimated to be the carrying amount of the loan less specific reserves. Certain loans evaluated for impairment under FASB guidance have fair values based upon the underlying collateral, as the loans were collateral-dependent. Specific reserves were established for these loans when the value of the collateral, less estimated cost to sell, was less than the principal balance of the loan. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters.

Notes payable are segregated into pricing pools according to the types and terms of the loans (or other assets) which they fund. Fair value of the notes payable is estimated by discounting the anticipated cash flows of each pricing pool using the current rate that would be charged for additional borrowings. For purposes of this estimate it is assumed the cash flow on the notes is equal to the principal payments on the Association's loan receivables. This assumption implies that earnings on the Association's interest margin are used to fund operating expenses and capital expenditures.

Other property owned is classified as a Level 3 asset. The fair value is generally determined using formal appraisals of each individual property. These assets are held for sale. Costs to sell represent transaction costs and are not included as a component of the fair value of other property owned. Other property owned consists of real and personal property acquired through foreclosure or deed in lieu of foreclosure and is carried as an asset held for sale, which is generally not its highest and best use. These properties are part of the Association's credit risk mitigation efforts, not its ongoing business. In addition, FCA regulations require that these types of property be disposed of within a reasonable period of time.

For commitments to extend credit, the estimated market value of off-balance-sheet commitments is minimal since the committed rate approximates current rates offered for commitments with similar rate and maturity characteristics; therefore, the related credit risk is not significant.

There were no Level 3 assets and liabilities measured at fair value on a recurring basis for the periods presented. The Association had no transfers of assets or liabilities into or out of Level 1 or Level 2 during the periods presented.

Fair values are estimated at each period end date for assets and liabilities measured at fair value on a recurring basis. Other Financial Instruments are not measured at fair value in the statement of financial position, but their fair values are estimated as of each period end date. The following tables summarize the carrying amounts of these assets and liabilities at period end, and their related fair values.

	December 31, 2019				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 707	$ 707	$ –	$ –	$ 707
Recurring Assets	$ 707	$ 707	$ –	$ –	$ 707
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 4,819	$ –	$ –	$ 4,819	$ 4,819
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 4,819	$ –	$ –	$ 4,819	$ 4,819
Other Financial Instruments					
Assets:					
Cash	$ 14	$ 14	$ –	$ –	$ 14
Investments in debt securities, held-to-maturity	5,262	–	5,205	–	5,205
Loans	560,503	–	–	558,875	558,875
Other Financial Assets	$ 565,779	$ 14	$ 5,205	$ 558,875	$ 564,094
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 463,711	$ –	$ –	$ 464,236	$ 464,236
Other Financial Liabilities	$ 463,711	$ –	$ –	$ 464,236	$ 464,236

	December 31, 2018				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 654	$ 654	$ –	$ –	$ 654
Recurring Assets	$ 654	$ 654	$ –	$ –	$ 654
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 7,510	$ –	$ –	$ 7,510	$ 7,510
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 7,510	$ –	$ –	$ 7,510	$ 7,510
Other Financial Instruments					
Assets:					
Cash	$ 189	$ 189	$ –	$ –	$ 189
Investments in debt securities, held-to-maturity	7,913	–	7,865	–	7,865
Loans	528,219	–	–	517,372	517,372
Other Financial Assets	$ 536,321	$ 189	$ 7,865	$ 517,372	$ 525,426
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 442,646	$ –	$ –	$ 437,279	$ 437,279
Other Financial Liabilities	$ 442,646	$ –	$ –	$ 437,279	$ 437,279

	December 31, 2017				
	Total Carrying Amount	Level 1	Level 2	Level 3	Total Fair Value
Recurring Measurements					
Assets:					
Assets held in trust funds	$ 577	$ 577	$ –	$ –	$ 577
Recurring Assets	$ 577	$ 577	$ –	$ –	$ 577
Liabilities:					
Recurring Liabilities	$ –	$ –	$ –	$ –	$ –
Nonrecurring Measurements					
Assets:					
Impaired loans	$ 7,918	$ –	$ –	$ 7,918	$ 7,918
Other property owned	–	–	–	–	–
Nonrecurring Assets	$ 7,918	$ –	$ –	$ 7,918	$ 7,918
Other Financial Instruments					
Assets:					
Cash	$ 53	$ 53	$ –	$ –	$ 53
Investments in debt securities, held-to-maturity	13,029	–	13,278	–	13,278
Loans	522,092	–	–	514,907	514,907
Other Financial Assets	$ 535,174	$ 53	$ 13,278	$ 514,907	$ 528,238
Liabilities:					
Notes payable to AgFirst Farm Credit Bank	$ 443,696	$ –	$ –	$ 441,018	$ 441,018
Other Financial Liabilities	$ 443,696	$ –	$ –	$ 441,018	$ 441,018

Uncertainty in Measurements of Fair Value

Discounted cash flow or similar modeling techniques are generally used to determine the recurring fair value measurements for Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the tables that follow. Accordingly, changes in these unobservable inputs may have a significant impact on fair value.

Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. Where multiple inputs are used within the valuation technique of an asset or liability, a change in one input in a certain direction may be offset by an opposite change in another input having a potentially muted impact to the overall fair value of that particular instrument. Additionally, a change in one unobservable input may result in a change to another unobservable input (that is, changes in certain inputs are interrelated with one another), which may counteract or magnify the fair value impact.

Inputs to Valuation Techniques

Management determines the Association's valuation policies and procedures. The Bank performs the majority of the Association's valuations, and its valuation processes are calibrated annually by an independent consultant. The fair value measurements are analyzed on a quarterly basis. For other valuations, documentation is obtained for third party

information, such as pricing, and periodically evaluated alongside internal information and pricing that is available.

Quoted market prices are generally not available for the instruments presented below. Accordingly, fair values are based on judgments regarding anticipated cash flows, future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates involve uncertainties and matters of judgment, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Quantitative Information about Recurring and Nonrecurring Level 3 Fair Value Measurements

	Fair Value	Valuation Technique(s)	Unobservable Input	Range
Impaired loans and other property owned	$ 4,819	Appraisal	Income and expense	*
			Comparable sales	*
			Replacement costs	*
			Comparability adjustments	*

** Ranges for this type of input are not useful because each collateral property is unique.*

Information about Other Financial Instrument Fair Value Measurements

	Valuation Technique(s)	Input
Cash	Carrying value	Par/principal and appropriate interest yield
Loans	Discounted cash flow	Prepayment forecasts Probability of default Loss severity
Investment securities, held-to-maturity	Discounted cash flow	Prepayment rates Risk adjusted discount rate
Notes payable to AgFirst Farm Credit Bank	Discounted cash flow	Prepayment forecasts Probability of default Loss severity

Note 9 — Employee Benefit Plans

The Association participates in three District sponsored benefit plans. These plans include a multiemployer defined benefit pension plan, the AgFirst Farm Credit Retirement Plan, which is a final average pay plan (FAP Plan). In addition, the Association participates in a multiemployer defined benefit other postretirement benefits plan (OPEB Plan), the Farm Credit Benefits Alliance Retiree and Disabled Medical and Dental Plan, and a defined contribution 401(k) plan. The risks of participating in these multiemployer plans are different from single employer plans in the following aspects:

1. Assets contributed to multiemployer plans by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Association chooses to stop participating in some of its multiemployer plans, the Association may be required to contribute to eliminate the underfunded status of the plan.

The District's multiemployer plans are not subject to ERISA and no Form 5500 is required. As such, the following information is neither available for nor applicable to the plans:

1. The Employer Identification Number (EIN) and three-digit Pension Plan Number
2. The most recent Pension Protection Act (PPA) zone status. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded.
3. The "FIP/RP Status" indicating whether a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
4. The expiration date(s) of collective-bargaining agreement(s).

The FAP Plan covers employees hired prior to January 1, 2003 and includes other District employees that are not employees of the Association. It is accounted for as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Balance Sheets for the AgFirst District. FAP Plan expenses included in employee benefit costs on the Association's Statements of Income were $594 for 2019, $785 for 2018, and $729 for 2017. At December 31, 2019, 2018, and 2017, the total liability balance for the FAP Plan presented in the District Combined Balance Sheets was $129,713, $94,491, and $139,104, respectively. The FAP Plan was 87.55 percent, 89.56 percent, and 86.41 percent funded to the projected benefit obligation as of December 31, 2019, 2018, and 2017, respectively.

In addition to providing pension benefits, the Association provides certain medical and dental benefits for eligible retired employees through the OPEB Plan. Substantially all of the Association employees may become eligible for the benefits if they reach early retirement age while working for the Association. Early retirement age is defined as a minimum of age 55 and 10 years of service. Employees hired after December 31, 2002, and employees who separate from service between age 50 and age 55, are required to pay the full cost of their retiree health insurance coverage. Employees who retire subsequent to December 1, 2007 are no longer provided retiree life insurance benefits. The OPEB Plan includes other Farm Credit System employees that are not employees of the Association or District and is accounted for

as a multiemployer plan. The related net benefit plan obligations are not included in the Association's Balance Sheets but are included in the Combined Statement of Condition for the Farm Credit System. The OPEB Plan is unfunded with expenses paid as incurred. Postretirement benefits other than pensions included in employee benefit costs on the Association's Statements of Income were $162 for 2019, $161 for 2018, and $160 for 2017. At December 31, 2019, the total AgFirst District liability balance for the OPEB Plan presented in the Farm Credit System Combined Statement of Condition was $209,531.

During 2017, the method of recording expenses at participating District entities for the FAP and OPEB Plans was modified. Prior to 2017, expense was recorded based on allocations of actuarially-determined costs and any differences between recorded expense and actual contributions were recorded in Other Assets or Other Liabilities on the Consolidated Balance Sheets. For 2017 and future years, participating entities will record employee benefit costs based on the actual contributions to the Plans. This change caused the Association to modify its accounting estimates recorded in Other Assets and Other Liabilities since the assets and liabilities do not impact future contributions to the Plans. The change in estimate resulted in the reduction of Other Assets by $2,663 and the reduction of Other Liabilities by $3,050 on the Association's Balance Sheets, and a total reduction of noninterest expenses on the Association's Statements of Income of $387 during 2017.

The Association also participates in a defined contribution Farm Credit Benefits Alliance (FCBA) 401(k) Plan (401(k) Plan), which qualifies as a 401(k) plan as defined by the Internal Revenue Code. For employees hired on or prior to December 31, 2002, the Association contributes $0.50 for each $1.00 of the employee's first 6.00 percent of contribution (based on total compensation) up to the maximum employer contribution of 3.00 percent of total compensation. For employees hired on or after January 1, 2003, the Association contributes $1.00 for each $1.00 of the employee's first 6.00 percent of contribution up to the maximum employer contribution of 6.00 percent of total compensation. Employee deferrals are not to exceed the maximum deferral as determined and adjusted by the Internal Revenue Service. The 401(k) Plan costs are expensed as funded. Employer contributions to this plan included in salaries and employee benefit costs were $426, $388, and $352 for the years ended December 31, 2019, 2018, and 2017, respectively. Beginning in 2015, contributions include an additional 3.00 percent of eligible compensation for employees hired after December 31, 2002.

FASB guidance further requires the determination of the fair value of plan assets and recognition of actuarial gains and losses, prior service costs or credits, and transition assets or obligations as a component of AOCI. Under the guidance, these amounts are subsequently recognized as components of net periodic benefit costs over time. For 2019, 2018, and 2017, $(203), $109 and $(71) has been recognized as a net debit, a net credit, and a net debit to AOCI to reflect these elements.

Additional information for the above may be found in the Notes to the Annual Information Statement of the Farm Credit System.

In addition to the multiemployer plans described above, the Association sponsors nonqualified supplemental retirement and 401(k) plans. The supplemental retirement plan is unfunded and had a projected benefit obligation of $1,508 and a net under-funded status of $1,508 at December 31, 2019. Assumptions used to determine the projected benefit obligation as of December 31, 2019 included a discount rate of 3.30 percent and a rate of compensation increase of 2.00 percent. The expenses of these nonqualified plans included in noninterest expenses were $149, $147, and $123 for 2019, 2018, and 2017, respectively.

Note 10 — Related Party Transactions

In the ordinary course of business, the Association enters into loan transactions with officers and directors of the Association, their immediate families and other organizations with which such persons may be associated. Such loans are subject to special approval requirements contained in the FCA regulations and are made on the same terms, including interest rates, amortization schedule, and collateral, as those prevailing at the time for comparable transactions with unaffiliated borrowers.

Total gross loans to such persons at December 31, 2019 amounted to $40,683. During 2019, $20,772 of new loans were made and repayments totaled $15,078. In the opinion of management, none of these loans outstanding at December, 31, 2018 involved more than a normal risk of collectibility.

Note 11 — Commitments and Contingencies

From time to time, legal actions are pending against the Association in which claims for money damages are asserted. On at least a quarterly basis, the Association assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. While the outcome of legal proceedings is inherently uncertain, on the basis of information presently available, management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, from these actions, would not be material in relation to the financial position of the Association. Because it is not probable that the Association will incur a loss or the loss is not estimable, no liability has been recorded for any claims that may be pending.

In the normal course of business, the Association may participate in financial instruments with off-balance-sheet risk to satisfy the financing needs of its borrowers. These financial instruments may include commitments to extend credit or letters of credit.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the financial statements. Commitments to extend credit are agreements to lend to a borrower as long as there is not a violation of any condition established in the contract. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee.

Since many of these commitments are expected to expire without being drawn upon, the total commitments do not

necessarily represent future cash requirements. However, these credit-related financial instruments have off-balance-sheet credit risk because their amounts are not reflected on the Consolidated Balance Sheets until funded or drawn upon. The credit risk associated with issuing commitments and letters of credit is substantially the same as that involved in extending loans to borrowers and management applies the same credit policies to these commitments. Upon fully funding a commitment, the credit risk amounts are equal to the contract amounts, assuming that borrowers fail completely to meet their obligations and the collateral or other security is of no value. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. At December 31, 2019, $123,754 of commitments to extend credit and no commercial letters of credit were outstanding. There was no reserve for unfunded commitments included in Other Liabilities in the Consolidated Balance Sheets at December 31, 2019.

The Association also participates in standby letters of credit to satisfy the financing needs of its borrowers. These letters of credit are irrevocable agreements to guarantee payments of specified financial obligations. At December 31, 2019, standby letters of credit outstanding totaled $1,736 with expiration dates ranging from January 1, 2020 to December 12, 2023. The maximum potential amount of future payments that may be required under these guarantees was $1,736.

Note 12 — Income Taxes

At December 31, 2019, 2018 and 2017, the Association recorded $0, $0, and $0, respectively for provision or benefit for federal or state income taxes.

The provision (benefit) for income tax differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income as follows:

	December 31,		
	2019	2018	2017
Federal tax at statutory rate	$ 2,580	$ 2,972	$ 4,289
Effect of non-taxable FLCA subsidiary	(1,201)	(1,668)	(2,679)
Patronage distributions	(1,365)	(1,302)	(1,610)
Change in valuation allowance	(20)	(8)	(3,522)
Change in statutory rate	–	–	3,513
Other	6	6	9
Provision (benefit) for income taxes	$ –	$ –	$ –

Deferred tax assets and liabilities are comprised of the following at:

	December 31,		
	2019	2018	2017
Deferred income tax assets:			
Allowance for loan losses	$ 499	$ 665	$ 736
Net operating loss – carryforward	5,781	5,457	5,283
Nonaccrual loan interest	83	249	366
Gross deferred tax assets	6,363	6,371	6,385
Less: valuation allowance	(6,327)	(6,351)	(6,361)
Gross deferred tax assets, net of valuation allowance	36	20	24
Deferred income tax liabilities:			
Loan origination fees	(36)	(20)	(24)
Gross deferred tax liability	(36)	(20)	(24)
Net deferred tax asset (liability)	$ –	$ –	$ –

At December 31, 2019, deferred income taxes have not been provided by the Association on approximately $1.2 million of patronage refunds received from the Bank prior to January 1, 1993. Such refunds, distributed in the form of stock, are subject to tax only upon conversion to cash. The tax liability related to future conversions is not expected to be material.

The Association recorded a valuation allowance of $6,327, $6,351 and $6,361 as of December 31, 2019, 2018 and 2017, respectively. The Association will continue to evaluate the realizability of these deferred tax assets and adjust the valuation allowance accordingly.

At December 31, 2019 the Association has Federal loss carryforwards totaling approximately $22.8M that expire in varying amounts beginning in 2026. Of this, $687 of the net operating losses were generated post 2017 and can be carried forward indefinitely. The valuation allowance at December 31, 2019 was primarily related to federal loss carryforwards that, in the judgment of management, are more likely than not to expire before realized. In evaluating the Company's ability to recover its deferred income tax assets, it considers all available evidence, both positive and negative, including operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis.

There were no uncertain tax positions identified related to the current year and the Association has no unrecognized tax benefits at December 31, 2019 for which liabilities have been established. The Association recognizes interest and penalties, if any, related to unrecognized tax benefits as a component of income tax expense.

The Tax Cuts and Jobs Act was enacted on December 22, 2017, and includes, among other items, a reduction in the federal corporate income tax rate. The reduced rate does not have an impact in our effective tax rate due to a full valuation allowance in our books. Additionally, since our deferred tax balances are calculated based on the tax rates in effect during the period, a change in federal corporate income tax rates is recorded as a component of the income tax provision for the period in which the law is enacted to change current or future tax rates. Therefore, this reduction in the corporate federal income tax rate resulted in a one-time adjustment of our deferred tax balances and a corresponding adjustment of our valuation allowance in 2017.

The tax years that remain open for federal and major state income tax jurisdictions are 2016 and forward.

Note 13 — Additional Financial Information

Quarterly Financial Information (Unaudited)

	2019				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 3,480	$ 3,956	$ 3,501	$ 3,800	$ 14,737
Provision for (reversal of allowance for) loan losses	(314)	(440)	(350)	680	(424)
Noninterest income (expense), net	(1,304)	(1,241)	(1,600)	1,267	(2,878)
Net income	$ 2,490	$ 3,155	$ 2,251	$ 4,387	$ 12,283

	2018				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 3,245	$ 3,250	$ 4,187	$ 3,301	$ 13,983
Provision for (reversal of allowance for) loan losses	(150)	(565)	(1,060)	–	(1,775)
Noninterest income (expense), net	(884)	(1,135)	(1,597)	2,009	(1,607)
Net income	$ 2,511	$ 2,680	$ 3,650	$ 5,310	$ 14,151

	2017				
	First	**Second**	**Third**	**Fourth**	**Total**
Net interest income	$ 3,283	$ 2,906	$ 3,033	$ 3,037	$ 12,259
Provision for (reversal of allowance for) loan losses	(228)	–	–	(450)	(678)
Noninterest income (expense), net	(1,230)	(1,159)	(1,429)	3,136	(682)
Net income	$ 2,281	$ 1,747	$ 1,604	$ 6,623	$ 12,255

Note 14 — Subsequent Events

The Association entered into a new lease agreement for the administration office in March, 2020. In accordance with accounting standards for leases, the Association will recognize a lease liability and a corresponding right-of-use asset of a similar amount which will have a material impact on our consolidated balance sheet.

The Association determined that there were no additional subsequent events requiring disclosure through March 12, 2020, which was the date the financial statements were issued.

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